



INSTITUTE FOR DEFENSE ANALYSES

**Proceedings of the Second IDA-CIISS  
Workshop: Common Security Challenges  
and Defense Personnel Costs**

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Chen Wei, CIISS  
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January 2008

Approved for public release;  
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IDA Document D-3412

Log: H 07-000871

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## **ABSTRACT**

On June 19–20, 2007, representatives from the Institute for Defense Analyses (IDA), the CNA Corporation (CNAC), and the China Institute for International Strategic Studies (CISS) met at IDA in Alexandria, Virginia, for the second of two workshops with the purpose of fostering dialog between the United States and China on subjects of common interest. The topics addressed at the workshop were common security challenges and defense personnel costs. This document contains the proceedings of the workshop, including a speech delivered by Major General (Ret) Gong Xianfu of CISS on “The Role of the PLA in China’s Future Security Policy.”



## **PREFACE**

The Institute for Defense Analyses (IDA) prepared this document under its independent research program. The document describes and records the proceedings of a workshop conducted June 19–20, 2007, at IDA in Alexandria, Virginia.

The document contains presentations by Major General (Ret) Gong Xianfu, Vice Chairman, China Institute for International Strategic Studies and former Defense Attaché to the United States, Major General (Ret) Jiang Shilang, Senior Advisor to CIISS and former Chief of Military Transportation Department, General Logistics Department of the People's Liberation Army, Mr. Chen Yongxing, Senior Research Fellow, CIISS, and former Defense Attaché to the Republic of Korea, and Dr. Chen Wei, Executive Director and Research Fellow, CIISS. The CIISS granted IDA permission to include these presentations in this document.

IDA is indebted to Dr. Kenneth Allen of the CNA Corporation for translating a presentation given by General Gong Xianfu on “The Proportion of Personnel Expenses in China's National Defense Budget,” and General Jiang Shilang's presentation on the subject of “Chinese Veteran's Costs.” Dr. Allen also providing background material on the PLA officer and enlisted force grade system (Appendix A) and definitions of key personnel expense terms (Appendix B). We are also indebted to Dr. Tzee-Nan Lo for translating Dr. Chen Yongxing's presentation titled “DPRK Nuclear Crisis and Its Domestic Situation.”

This document has not undergone formal IDA review.





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## **I. INTRODUCTION**

### **A. BACKGROUND**

In 2005, the Institute for Defense Analyses (IDA) and the China Institute for International Strategic Studies (CIISS) agreed to conduct a sequence of workshops with the purpose of strengthening mutual understanding by engaging in dialog on subjects of common interest as well as differences.

The first IDA-CIISS workshop was conducted March 27–29, 2006, at CIISS. Each organization picked one topic for discussion. CIISS chose “Military-to-Military Relations” with intentions of enhancing such relations between the United States and China. IDA chose “Personnel Costs in the Defense Expenditures of the United States and China,” with the intention of clearing up present misunderstandings and false information presented in the press. The proceedings of that workshop are documented in IDA Document D-3161, “Proceedings of the 1st IDA-CIISS Workshop: Military-to-Military Relations and Defense Personnel Costs.” This document contains the proceedings of the second IDA-CIISS workshop, conducted June 19–20, 2007, at IDA in Alexandria, Virginia.

The remainder of this chapter provides a description of the CIISS, the agenda for and participants in the workshop, and a summary of the proceedings.

### **B. CHINA INSTITUTE FOR INTERNATIONAL STRATEGIC STUDIES<sup>1</sup>**

The CIISS is a national non-government academic organization engaged in international strategic studies. The aim of the institute is to conduct studies on the international strategic situation, global security, world political and economic as well as regional issues. CIISS establishes contacts and carries out academic exchanges with relevant international strategic research institutions, academic organizations and public figures in China and abroad. CIISS offers consultancy and policy advice to and undertakes research projects for relevant departments of the Chinese government, the PLA and other institutions and enterprises. CIISS plays the role of think tank in the

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<sup>1</sup> The next four paragraphs were extracted and condensed from an untitled brochure provided to Stephen J. Balut by CIISS.

interests of national security, economic development, international security and world peace and development.

The Institute, established in 1979, was known as the Beijing Institute for International Strategic Studies and was renamed CIISS in 1992. The highest leading body of the Institute is its Council. It elects its chairman and deputy chairmen who preside over the work of the Institute.

CIISS has about 100 full and part-time research personnel, including mainly active and retired officers, diplomats, experts and scholars who are specialists in research and strategic analysis of international issues. The Institute also invites some noted personages in political, economic, military, diplomatic, scientific and technological, press and academic circles as its senior advisors and guest research fellows to give advice on academic research write academic theses and take part in academic exchanges.

CIISS develops contacts and arranges academic exchanges with about 100 relevant research institutions in more than 50 countries. CIISS believes the academic exchanges in the forms of exchanging visits, holding bilateral and multilateral symposia, participating in international symposia, sending and receiving visiting scholars, etc., have enhanced mutual understanding and friendship.

### **C. AGENDA AND PARTICIPANTS**

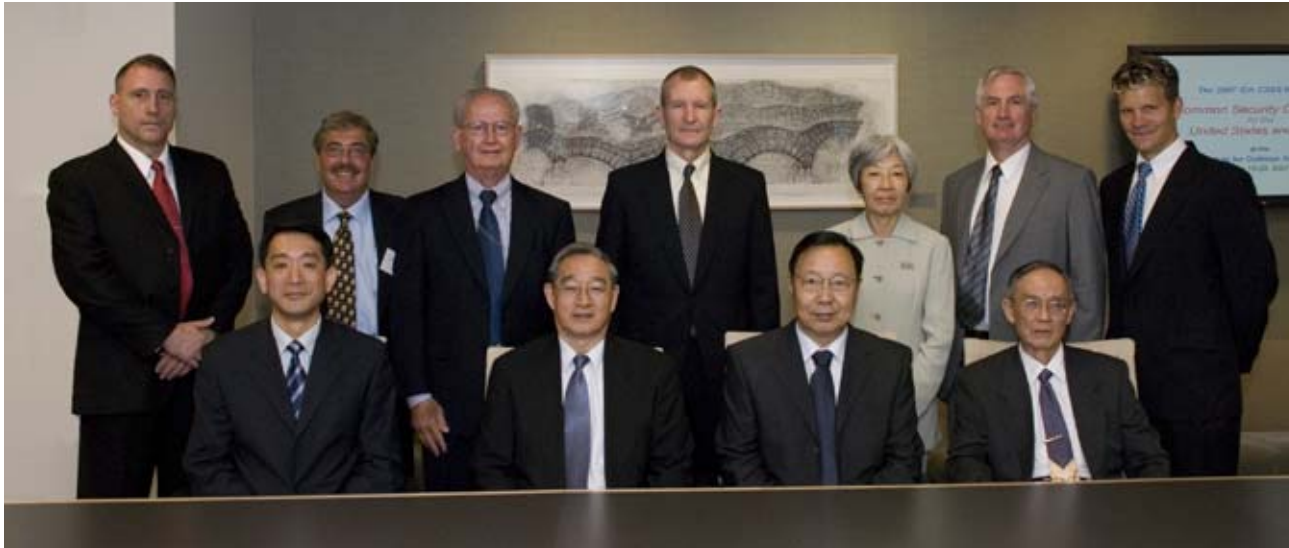
Table 1 presents the agenda for the two-day workshop, and Table 2 lists the workshop participants. The Chinese delegation included current and former officials of the People's Liberation Army (PLA) and Ministry of National Defense.

**Table 1. Agenda**

Tuesday, June 19 Common Security Challenges for the United States and China	Welcoming Remarks and Introductions
	Session I: U.S.-China Security Concerns in East Asia
	Session II: North Korea
	Session III: Peace and Prosperity in Africa
Wednesday, June 20 Defense Personnel Costs	Session IV: Personnel Portion of Total Defense Costs
	Major General Gong Xianfu on Role of PLA in China's Future Security Policy
	Session V: Veteran's Costs
	Concluding Remarks

**Table 2. Participants**

Delegation	Name	Title
China	Major General (Ret) Gong Xianfu	Vice Chairman, CIISS (former Defense Attaché to the United States)
	Major General (Ret) Jiang Shilang	Senior Advisor, CIISS (former Chief, Military Transportation Department, General Logistics Department, PLA)
	Mr. Chen Yongxing	Senior Research Fellow, CIISS (former Defense Attaché to the Republic of Korea)
	Dr. Chen Wei	Executive Director and Research Fellow, CIISS
United States	Adm. (Ret.) Dennis C. Blair	Adjunct Staff Member, IDA
	Dr. Stephen J. Balut	Special Assistant to the President for International Projects, IDA
	Dr. John T. Hanley	Research Staff Member, IDA
	Colonel Chester Arnold	Research Staff Member, IDA
	Dr. Kongdan (Katy) O. Hassig	Research Staff Member, IDA
	Mr. Stanley A. Horowitz	Assistant Director, Cost Analysis and Research Division, IDA
	Dr. David E. Hunter	Research Staff Member, IDA
	Dr. Kenneth W. Allen	Research Staff Member, CNAC
	Mr. Andrew Xue (Interpreter)	U.S. State Department



*Back row from left: Chester Arnold, Stanley Horowitz, Stephen Balut, Dennis Blair, Katy Hassig, John Hanley, and David Hunter. Front row from left: Chen Wei, Gong Xianfu, Jiang Shilang, and Chen Yongxing.*

## **D. SUMMARY OF PROCEEDINGS**

The theme for the first day was “Common Security Challenges for the United States and China. Heads of the delegations, Admiral Blair and Major General Gong Xianfu, each provided comments on this topic during the opening remarks (Chapter II).

Chapter III contains the presentations made during sessions 1 to 3 on the first day of the workshop. Session 1 addressed U.S.-China security concerns in East Asia, during which Dr. John Hanley of IDA and General Gong Xianfu each presented their views of both U.S. and China concerns. Discussions in session 2 focused on North Korea. Dr. Katy O. Hassig presented a history of North Korean attitudes, after which Chen Yongxing discussed the Democratic People’s Republic of Korea (DPRK) nuclear crisis and its domestic situation. Session 3 dealt with the topic of peace and prosperity in Africa. Colonel Chester Arnold of IDA’s Joint Advanced Warfare Program presented the U.S. approach to Africa, and Dr. Chen Wei discussed Sino-African relations and presented China’s Africa policy.

The second day of the workshop was devoted to defense personnel costs. Session 4 focused on the personnel portion of total defense costs in both countries, with Stanley Horowitz discussing DoD personnel costs, and General Gong Xianfu discussing the personnel portion of Chinese defense costs. At the request of IDA, General Gong Xianfu delivered a speech on the role of the PLA in China’s future security policy. The audience included Research Staff Members from both IDA and CNAC.

The second day continued with session 5 during which Dr. David Hunter of IDA presented a view of total veterans’ costs in the U.S., and General Jiang Shilang discussed Chinese veterans’ costs. The content of sessions 4 and 5 and General Gong Xianfu’s speech are contained in Chapter IV. Chapter V contains closing remarks.





## II. WELCOMING REMARKS

*Admiral Blair welcomed the CIISS delegation and introduced the members of the IDA delegation after which General Gong introduced the members of the CIISS delegation. In their opening remarks, Admiral Blair and General Gong addressed the theme of the workshop, Common Security Challenges for the United States and China.*

### A. ADMIRAL DENNIS BLAIR, IDA

I attended the Shangri La Dialogue in Singapore two weeks ago and found the dialogue interesting and encouraging. General Xiang was the senior PLA representative at that meeting. This was the highest level of PLA participation in this conference. During the second day plenaries, the U.S., China and India defense leaders in their remarks showed strikingly similar approaches to the common theme of multi-level cooperation. All three welcomed questions and the answers were straight-forward and responsive.

Secretary Gates spoke of greater cooperation on terrorism in Central Asia. He was asked the purpose of U.S.-Japan missile defense. His answer was the system was intended to deal with rogue countries and the system was not capable of dealing with China. Secretary Gates called for more transparency by China and offered more transparency by the U.S. on missile defense.

General Xiang was asked about the purposes of the Chinese military buildup and he gave a detailed answer. He said fifty percent of the buildup was for personnel, 25 percent for uniforms and 25 percent for equipment.

The India Minister talked of cooperation and India's military policy that was not directed against any threat.

After hearing these presentations, an observer asks himself, "What's the problem in Asia?" The military leaders of all the major countries in the region are endorsing common goals—cooperation, peaceful development—not conflict.

Within this favorable atmosphere, there are areas in which the U.S. and China can deepen their understanding, and I have several ideas. One is dialogue about nuclear weapons and nuclear defenses. Talks between Russia and China on these topics are different. With Russia, the talks are detailed technical discussions—character of

equipment, purposes of deployments, etc. With China the talks are general and consist of presentations, not discussions. The key to mutual understanding is to discuss technical characteristics of current and possible future systems and demonstrating that the weapons systems align with the declared purposes. This level of dialogue does not exist between our two countries. China is modernizing its offensive nuclear forces and the U.S. is building missile defenses. We need to understand each other in order to ensure that the emerging nuclear balance supports deterrence and peace.

There are practical military matters in the region that we could discuss. The first is disaster relief—common military responses to acts of nature. Tsunami relief in 2004 was a landmark event. We saw cooperation by armed forces and other groups that changed the landscape in Indonesia. The popularity of the countries that assisted went up by 30 to 40 percent in the eyes of the Indonesians. Military response is important during the early stages of such an emergency. This is an area where China and the U.S. can cooperate by making a common commitment to disaster response. There are many multilateral activities in Asia for disaster response to use for greater cooperation.

The second area is maritime cooperation. When Admiral Wu visited several weeks ago, Admiral Mullen explained the concept of the 1000-ship navy. The navies and coast guards of all nations have common responsibilities on the high seas—to ensure their use for legal purposes and to ensure they are not used for destructive purposes. China and the U.S. could conduct cooperative operations against terrorists, pirates, smugglers and other common threats. This is a simple concept but it may prove to be hard to do—planning, communications, feedback, evaluating effectiveness in increasing cooperation are necessary for success.

I see a very good atmosphere regarding cooperation on common security challenges, including nuclear—a bilateral area, and many multi-lateral areas.

## **B. MAJOR GENERAL (RET.) GONG XIANFU, CISS**

Thank you, Admiral Blair, for your warm welcome and excellent speech about cooperating on common security challenges. I agree with what you said.

Admiral Blair described common challenges and how to cooperate to deal with these challenges. In particular, he spoke of the Shangri La dialogue and discussions there regarding how militaries can have a lot to do with dealing with these challenges. He especially emphasized the importance for U.S.-Sino cooperation to face challenges on nuclear weapons.

Recently there have been misunderstandings regarding China's intent with respect to nuclear weapons development. Some are saying that the intent is to change the nuclear balance—to change from a defensive stance to a preemptive strike capability. Admiral Blair emphasized cooperation between our two nuclear forces on the high seas in the areas of rescue and disaster relief.

The current international security situation is undergoing profound and complex changes and is in the era of massive transformation and adjustment. The traditional and non-traditional security threats are interwoven with some regional hotspots heating up and on-traditional security threats increasing. Since the eruption of the North Korean nuclear crisis, the situation on the Korean peninsula has been constantly tense. The prospect for the settlement of the North Korean nuclear issue remains unclear. The Iranian nuclear issue has witnessed ups and downs. It is still locked in a stalemate. The security situation in Iraq remains stern, being on the verge of civil war. The bloody conflicts between Israel and Palestine are flaring up. The non-traditional security threats, such as international terrorism, proliferation of weapons of mass destruction, transnational crimes, piracy, epidemic diseases, environmental degradation and so on are on the rise, which is posing more and more threats to the world peace and stability. In face of all these security threats, no country in the world can go it alone to cope with. To strengthen international cooperation especially among the major powers has become the only effective way to tackle the above-mentioned security challenges.

China is the biggest developing country in the world. The U.S. is the sole superpower. Both are permanent members of the UN Security Council. China and the U.S. share a great deal of common interests as well as responsibilities in the maintenance of world peace and stability. The two nations are not only the responsible stake-holders, but also constructive cooperators. Therefore, it is only too natural for the two sides to strengthen cooperation on common security challenges. As I can see, China-U.S. security cooperation could include conduct of strategy dialogue on international and regional security issues; coordination of actions for coping with regional crises as much as possible, and cooperation on anti-terror, non-proliferation of WMD, UN peace keeping, cracking down on trans-national crimes such as drug-trafficking, illegal immigration, preventing money laundering, anti-piracy, humanitarian rescue and disaster relief, ensuring energy security, environmental protection and prevention of epidemic diseases, etc. The two sides could also cooperate on the maintenance of peace and stability across the Taiwan Straits by curbing the secessionist activities of the Taiwanese authorities. So far, the two nations have already carried out quite good cooperation in the aforesaid

areas. We are hopeful that the two sides would make great efforts to enhance and deepen cooperation in the years to come.

With this in mind, we came to visit IDA and chose to discuss the China-U.S. security concerns in East Asia, North Korea, defense expenditures and so on with an aim to increase our mutual understanding and trust so as to strengthen our cooperation in the security field. We wish this kind of second track dialogue between us could serve the purpose of complementing the strategic dialog between our two states.

I appreciate Admiral Blair's remarks on the nuclear field. We are making good progress, but we have a long way to go. A good area for cooperation would be disaster relief. Remember, at our first workshop a year ago, Admiral Blair suggested joint exercises on search and rescue. Our armed forces have already conducted these exercises, which is a tribute to Admiral Blair.

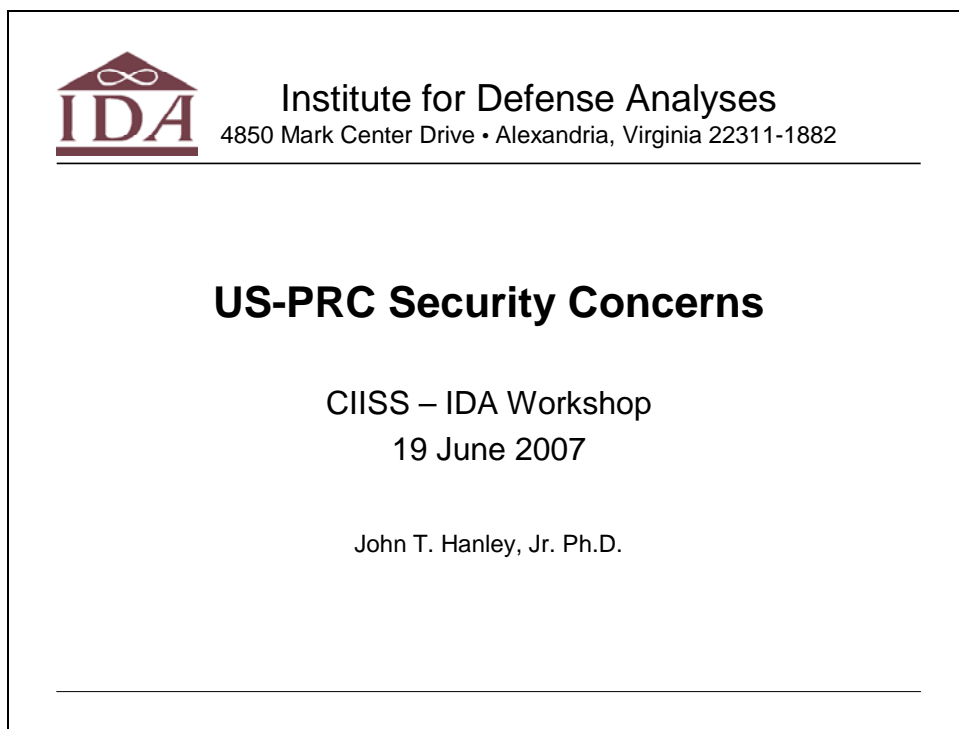
As long as we continue to have candid exchanges and demonstrate a desire to improve cooperation and clear misunderstanding, we can make good progress. For that, I have brought with me these experts of high caliber for our workshop. I wish we will be successful in our efforts.

### **III. COMMON SECURITY CHALLENGES FOR THE UNITED STATES AND CHINA**

#### **A. SESSION 1: U.S.-CHINA SECURITY CONCERNS IN EAST ASIA**

In keeping with the theme of the workshop, IDA and CISS agreed to comment on U.S.-China security concerns in East Asia, with each side stating their views from their country's point of view and also their understanding of the view of the other side. Dr. John Hanley spoke for IDA, and Major General Gong Xianfu spoke for CISS.

##### **1. Dr. John Hanley, IDA**



Colleagues, it is my honor and pleasure once again to make the first presentation at our CISS-IDA workshops.

I will begin with an apology. My task was to address U.S.-PRC security concerns in East Asia. However, upon studying the topic, I concluded that one of the major changes in PRC security concerns over the past decade has been the expansion of the PRC

security concerns into the Middle East and Africa as Chinese commercial and political ties have grown in those regions. Therefore, I will extend my remarks to include these two regions.



#### **Disclaimer**

- The following ideas are mine
- Many Americans have other ideas
- My ideas differ in formulation and details from IDA and other colleagues, and current US policies

20 August 2007

2

Many Americans have differing views regarding the character and priorities of PRC and U.S. security concerns. The ideas presented in this paper are mine. They differ in the formulation and some details from current U.S. policies and the ways that my IDA and other non-government colleagues might present them.

- PRC security concerns expanding
  - US and PRC interests in security and peaceful development intersect many places around the globe
- Law enforcement concerns becoming larger threats to national security interests
  - Requiring greater coordination among military and law enforcement forces
- “Super-empowered global guerillas” emerging
  - E.g. Islamic revolutionaries, Iraqi and Uigher insurgents, Nigerian oil fighters, drug cartels

Potential for US-PRC cooperation is increasing

20 August 2007

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The topic assigned was to address U.S.-China security concerns in East Asia. I will do that. However, one of the most notable developments over the last decade has been the PRC extending its horizon beyond the borders of the Middle Kingdom. As the PRC expands its international political and commercial ties, its interests in security and peaceful development are expanding, and intersecting with similar U.S. interests. Therefore, I will address a broader geography.

Another important development is the expanding number of law enforcement concerns that are increasingly viewed as threats to national security. Super-empowered global guerillas—Al Qaeda, Iraqi and Uigher insurgents, Nigerian oil fighters, drug cartels—seek to weaken states so that they can prosper in the lawless space created by the collapse of law and order.<sup>2</sup> Therefore, this short review will broach the complex subject of cooperation beyond military forces, to include armed law enforcement in addressing common security challenges.

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<sup>2</sup> David Brooks, “The Insurgent Advantage,” New York Times, May 18, 2007. Reporting on John Robb, “Brave New War: The Next Stage of Terrorism and the End of Globalization,” John Wiley & Sons, Hoboken, NJ, 2007.

I will state my conclusion at the beginning. The potential for cooperation among PRC and U.S. armed forces are increasing with the intersection of broad geographic security interests, but we will need further dialogue to turn this potential into action.



## Security Concerns

- Traditional
  - Threats emanating from other nations and involving a military component
- Nontraditional General Xiong Guangkai, Shijie Zhishi, August 1 2005
  - Transcend national boundaries
  - Go beyond the military sphere
  - Are often sudden and unexpected
  - Threats that more than one nation faces and cannot be solved by one country or by a single means

Frequently interwoven with traditional security threats

20 August 20074

We can partition security concerns into those traditionally considered in military planning and nontraditional security concerns, which are receiving increasing attention. Traditional security concerns involve threats emanating from other nations and involving a military component. Traditional security concerns typically involve either concerns for defense against armed invasion from neighboring countries or territorial disputes involving armed conflict between military forces.

Non-traditional security concerns have different attributes. I like the formulation that General Xiong Guangkai used in his article in Shijie Zhishi published in 2005. The attributes that he describes to characterize nontraditional threats include:

- They transcend national boundaries;
- They go beyond the military sphere;
- Though they may be generally anticipated, they are unexpected in the sense that “explode in a sudden way, lack clear signs,...or have a strong, random character.”



- They involve threats that more than one nation faces and cannot be solved by one country or by a single means.<sup>3</sup>

Nontraditional and traditional security threats are frequently interwoven. This is readily apparent in Iraq as the surrounding states have concerns over various insurgent factions and strong differences with neighbors rooted in ancient history. Traditional security concerns limit U.S.-PRC cooperation in working to defeat nontraditional security threats.

This short review will not address non-traditional security challenges resulting from poorly formed or executed social policies that create domestic and social contradictions and tensions.

## Nontraditional Security Concerns

Super-Empowered Guerrillas

Humanity & Nature

Nontraditional Security Concerns	North East Asia	South East Asia	South Asia	Mid East/ Central Asia	Africa	Aspects Common to PRC/US
Energy Security				X	X	X
Islamic Revolutionaries		X	X	X	X	X
National Unity: Separatists & Extremists	~	X	X	X	X	X
Transnational Crime: drugs, smuggling, piracy, ...	X	X	X	X	X	X
Nuclear Weapon Proliferation	X		X	X		X
Pandemics	X	X	X	X	X	X
Natural Disasters	X	X	X	X	X	X
Environmental Change	X	X	X	X	X	X

20 August 2007

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This chart summarizes a lot of information and judgment.

The left-hand column categorizes nontraditional security concerns. The list includes energy security; Islamic revolutionaries, national unity, and transnational crime all grouped under a category of “super-empowered guerillas; nuclear weapon proliferation;


<sup>3</sup> Susan L. Craig, “Chinese Perceptions of Traditional and Nontraditional Security Threats,” March 2007, p. 102, <http://www.StrategicStudiesInstitute.army.mil/>. Cites General Xiong Guangkai, “Joint Efforts to Deal with the New Challenge of Nontraditional Security Threats,” Shijie Zhishi, August 1 2005, translated by open source center.

and pandemics, natural disasters, and environmental change all grouped under a category of humanity and nature.

The far right-hand column suggests that aspects of these concerns are common to both the U.S. and PRC. The middle columns indicate the regions where these concerns exist. Non-traditional security concerns are widely spread and have local, regional, and global features.

My assertion is that aspects of PRC and U.S. security concerns are common enough to provide a basis for coordinated action, though the U.S. and PRC may not currently perceive them the same way. Considerable work remains to develop the trust that our governments can seek mutual gain, rather than an advantage with respect to each other in addressing these security concerns.

The next section of this briefing will discuss each of the non-traditional security concerns in more detail.



## Energy Security

- US and PRC increasingly perceive access to energy as a security concern
  - Required for economic growth
- Principal threat is to sources of energy
  - Nontraditional threats to transport are exaggerated
    - Only viable in context of traditional conflict with major naval power
- Conflicts in the Middle East represent the greatest threat
- Security and peaceful development in Africa and Central Asia more important as oil demand matches supply
- Oil/gas disputes in East and South Asia linked to disputed borders and historical animosities

20 August 2007

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Let us begin with energy security. Access to energy is a high priority for both countries as continued economic growth creates greater demands for affordable energy – particularly oil and gas hydrocarbons.

We can partition the threats into the threats to the sources of oil and gas extraction, and then their subsequent transport. In a tight, global market for oil, conflicts in the Middle East present the greatest threat to the affordable energy needed for continued strong economic growth. Non-traditional threats to the transport of the large flows of energy, which goes mainly by sea, are exaggerated. Pirates or terrorists may be able to get attention by taking one large ship, but this would have negligible effects on global energy flows.

As the demand for oil and gas increases, alternative sources to the Middle East have greater effect on prices. Therefore security and peaceful development in Central Asia and Africa becomes more important to prevent local conflicts from having global consequences.

The magnitude of oil and gas extraction in East (to include South and Southeast) Asia is small enough to characterize the associated territorial disputes as more related to traditional security concerns than energy security.



### **Super-Empowered Guerillas**

- Islamic revolutionaries, insurgents, criminals
  - Seek to weaken states so that they can prosper
  - Local cells link across regions and globe
- Requires coordination between governments
  - To address weakly governed and ungoverned areas, regionally and globally, that affect common interests
- Requires coordination among government organizations
  - military, law enforcement (customs, finance, immigration, coast guard), aid & information agencies
- US-PRC cooperation complicated by PRC concerns over national unity (splitists), but significant opportunities for cooperation exist

20 August 2007

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I have already alluded to John Robb's characterization of "super-empowered guerillas." These include revolutionaries and insurgents who seek to take power, and criminals seeking wealth. They seek to weaken states so that they can prosper and are

empowered by global communications, transport and finance that allows local cells to link their causes across regions and around the globe.

No state, operating solely within its borders, can deal effectively with these “guerillas” who thrive within seams of lawlessness and use efforts of states to enforce their sovereignty through different laws and limiting access of foreign law enforcement and armed forces to their advantage. Close coordination among states is required.

Also, within governments much closer coordination between military and law enforcement agencies is required than in the past. These include customs, finance, border control, and immigration agencies. Also, information and aid agencies need to coordinate their efforts to share appropriate information and to aid those states that do not have the capabilities to deal with these threats. Coordination of both military and law enforcement agencies within and between states will be needed to deal effectively with these threats.

U.S.-PRC cooperation against nontraditional threats is complicated by traditional security concerns and splitists. However, significant opportunities for cooperation exist, particularly among law enforcement forces. As China supports its growing interests around the world, its citizens will more often become a target of the super-empowered guerillas, as has happened recently in Nigeria, Ethiopia, and Pakistan. It will find more common cause with those countries working to establish international laws and help others establish effective law enforcement over their sovereign territories.



## **Nuclear Weapons Proliferation**

- State use of nuclear weapons that provides an “address” can be deterred
- Nuclear weapons in hands of “super-empowered guerillas” is greatest concern
- States with connections to “super-empowered guerillas” and history of proliferation are sources of concern
  - Nuclear weapon detonation likely to result in action against suspected proliferators
  - Candidates are closer to China than US

20 August 2007

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Nuclear weapons proliferation is another major nontraditional security concern. The threat from proliferation transcends national boundaries; goes beyond the military sphere; can explode in a sudden way; and cannot be solved by one country or by a single means.

Though the proliferation of nuclear weapons among states increases the chances of their eventual use, the greater concern is the potential for proliferation of these weapons to “super-empowered guerillas.” We have a history of successful deterrence against nuclear attack when the source of the attack can be attributed to a state. A state would have to be desperate to consider an exchange of nuclear weapons to be an acceptable risk.

However, should nuclear weapons fall into the hands of Islamic revolutionaries, likely assisted by criminal networks, we should anticipate their prompt use. Therefore, states who would proliferate for profit—such as the Democratic Republic of Korea—and states with connections to Islamic revolutionary movements—such as Iran—cause significant concerns. Given Iran’s Persian identity, providing nuclear technology to Arab, Taliban, or other nearby Islamic movements would be unwise and is unlikely. However, whether the government can prevent radical elements from sharing or selling the technology as Iran develops it is highly problematic.

Those most likely to spread nuclear weapons are close to China's borders, and China will be more of a target for "super-empowered guerillas" as its comprehensive national power grows.

Also, the government of any state that suffers a nuclear detonation on its territory will feel compelled to retaliate. If it cannot attribute the attack or find the perpetrators, it may well retaliate against those suspected of providing the technology to them, perhaps with nuclear weapons. The PRC and U.S. should work carefully through the implications of such a scenario as evidence of the need for greater cooperation in stemming the proliferation of nuclear weapon technology.



### Interaction of Humanity and Nature

- Pandemics, natural disasters, environmental change
- Greater security concern with globalization
  - Global effects, global interest in major natural disasters
- Military contributes when scale exceeds capacity of civil authorities
  - Provides constructive ways for military forces to work toward common ends
- Environment affects peaceful development and security
  - Increasing role for Armed forces (military and law enforcement)

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The final category of nontraditional threats involves humanity and nature; pandemics, natural disasters, and environmental change.

The category is becoming a greater concern as people move more often and more freely among countries for business and pleasure. The speed of movement is much faster than it takes diseases to show, allowing diseased animals and people to create pandemics globally. Recent events such as the Severe Acute Respiratory Syndrome (SARS) and Avian flu virus have demonstrated our potential vulnerabilities to pandemics that could result in massive loss of life.

Global communications has also increased our awareness of natural disasters, such as the 2004 tsunami, with consequent concern for the welfare of the people affected and interests in demonstrating our friendship to their governments.

Military forces are often asked to assist civil authorities when such disasters strike. Only military forces possess the mobile communications, logistics, and organizational abilities to respond quickly. Developing capabilities to respond to natural disasters provides a constructive way for military forces to work together and build trust that can lead to greater cooperation on more complex and sensitive issues.

Concerns for environmental security are growing. Pollution of the air and sea has global, as well as local effects. The environment is related to many other nontraditional security concerns. Sustainable environments are required for sustainable economic growth. Global warming contributes to the severity, and perhaps the frequency, of major storms as more energy is trapped in the atmosphere. It also is predicted to contribute to greater competition for water as a motive for armed conflict, the spread of tropical diseases, and changing the ocean's ecology. Over fishing and fishing that destroys fish habitat accelerate this environmental degradation.

Short of major war, military forces contribute only on the margin to environmental degradation or improvement. However, as this security concern grows, military forces will be called upon to support law enforcement and do what they can to contribute.



### Traditional Security Concerns

Traditional Security Concerns	North East Asia	South East Asia	South Asia	Mid East/ Central Asia	Africa	Aspects Common to PRC/US
Unresolved Wars: - China - Korea - Kashmir	X		X			~
Future Power Realignments: - Japan - Korea - India - Russia	X		X			
Disputed Borders: many	X	X	X	X	X	~

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Let me now leave the discussion of nontraditional security and turn to traditional security concerns.

This table is similar to that for nontraditional security concerns. The left-hand column characterizes traditional security concerns in the categories of unresolved wars, future power realignments, and disputed borders. The right-hand column indicates that there are few common aspects in these security concerns that the U.S. and PRC can use to find grounds for cooperation at this time. The first two affect principally Northeast and South Asia. Border disputes are ubiquitous.

The most problematic is the PRC's unresolved war across the Taiwan strait. Though the U.S. and PRC agree upon a denuclearized Korean peninsula, we have different views regarding what a settlement of the Korean war should entail. Concerns over the Taliban and other Islamic radicals have overtaken concerns of a war over Kashmir. However, that situation, bordering China, remains a security risk involving nuclear armed states.


The issues involving future power realignments in Asia are complex. Those in China and the U.S. who think in balance of power terms see inevitable competition, complicated by history. Others see opportunities for cooperative security and peaceful



development, leading to shared dependable expectations of peaceful change in the region. The former tend to dominate current policies.

Finally, there are many border disputes. Though the U.S. has interests that these do not lead to armed conflict, particularly involving treaty alliances, it mostly is interested in peaceful resolution of the disputes, hopefully through cooperation rather than power asymmetries.

The U.S. and PRC will need to continue their careful management of these traditional security concerns.



## Emerging Security Concerns

- Nuclear force development
- Space
- Cyberspace

Tools in the hands of both states and  
“super-empowered guerillas


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I would like to highlight one additional category of security concerns that will complicate U.S.-PRC relations if not addressed.

PRC development of nuclear forces and recent actions in space and cyberspace cause the U.S. great concern. The U.S. is sensitive to the potential for arms races in these areas, and the trajectory of recent developments is likely to lead to this outcome if not addressed. Seeking dominance in nuclear forces and space was a prominent feature of the Cold War. Though the importance of cyberspace became manifest following the Cold War, similar attempts to seek unilateral advantage are likely to lead to similar “arms” races. The U.S. will look to the PRC’s behavior in these areas as key indicators of intent. If the PRC does not want these to become the measures by which the U.S. judges its

security concerns vis-à-vis China, the two governments should engage in serious discussions over policies and agree upon appropriate behavior.

We should note that our concentration on the use of these forms of conflict with respect to each other may distract us from the value of these to the “super-empowered guerillas.” Cooperation in nuclear proliferation and the civilian use of space and cyberspace increasingly will be needed for effective action to protect our security against these threats.

	<b>Summary of Potential for Security Cooperation</b>
<ul style="list-style-type: none"><li>▪ Significant potential to cooperate against nontraditional threats</li><li>▪ Limited potential to cooperate closely on traditional security concerns<ul style="list-style-type: none"><li>▪ Continue to manage carefully</li></ul></li><li>▪ Initiatives to address emerging security concerns required<ul style="list-style-type: none"><li>▪ Bounding the competition</li><li>▪ Seeking areas to cooperate, vice military edge</li></ul></li></ul>	
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Briefly summarizing the potential for U.S.-PRC security cooperation:

- Significant potential exists for cooperation against nontraditional threats, which will be required to deal with them effectively.
- Until greater trust has been established, potential for cooperation on traditional security concerns is limited. We will have to manage these concerns carefully.
- Initiatives to address emerging security concerns are required. If we want to avoid arms races, we need to bound the competition in nuclear forces, space and cyberspace and seek areas to cooperate vice military dominance over each other. Preventing a long-term competition is unlikely without significant effort on both sides.



## **Path to PRC-US Security Cooperation**

- Identify congruent national interests
  - Many congruent interests in addressing non-traditional security concerns
- Build upon nascent cooperation
  - Law enforcement (terrorism; smuggling: drugs, weapons, people, ...; fisheries, piracy, ...)
  - Humanitarian Assistance/Disaster Relief
  - UN peace operations & security conventions
- Explore approaches to cooperation on more difficult issues

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The path to PRC-U.S. security cooperation will require sustained effort to build trust. Great Britain once was the greatest security challenge to the U.S. and has become its closest partner. While the Asian population of the U.S. is significantly smaller than those descended from Europe, it is growing. The possibility for China to become a security partner with the U.S. over time is not negligible, if both countries come to see it in their interest.

For this to happen, we must first identify where we have congruent national interests and where it genuinely makes sense to work together to realize those interests. Currently, there are significant possibilities to work together to address nontraditional security concerns.

We first should build upon the nascent cooperation that exists in law enforcement, humanitarian assistance and disaster relief, and in United Nations peace operations and security conventions.

If the experience in working areas where we have common concerns leads to greater trust that we can work to common aims rather than seeking advantage over each other in these areas, we can explore cooperation on more complex and sensitive issues.



## **Areas to Explore**

- **Principles:**
  - Westphalia: Sovereignty
  - UN Charter: International responsibilities to promote security and respond to aggression
  - Five Principles of Peaceful Coexistence
  - Helsinki: Humanitarian intervention
  - The state as the sole legitimate authority to use armed force
  - Dispute resolution without armed force
- **Regional security frameworks in the Middle East and Africa**
- **Nuclear weapons proliferation**
- **Emerging concerns**
  - Nuclear force development, space, cyberspace

**Objective: shared, dependable  
expectations of peaceful change**

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I would suggest several areas for IDA and CISS to explore to lay the intellectual foundation for potential U.S.-PRC security cooperation.

The first area involves principles for the use of armed force. The principles that underlie the legitimate use of armed force have evolved over the ages, and been a subject of recent change. We jointly should explore these principles, identify our agreements and disagreements, and present these to our respective governments. Restoring the government of a state as the sole legitimate authority to employ armed force is emerging as a major challenge for the 21st century.

Given the current turmoil in the Middle East and the expansion of both U.S. and PRC activities in Africa, we should jointly explore our ideas regarding regional security frameworks in these areas that would suit our national interests. Given the importance of the Middle East to energy security, this region should receive our priority.

I believe that we have more common ground in cooperating to stem nuclear weapons proliferation than we have yet identified. We should explore this further.

Finally, we need to address those emerging security concerns that are likely to lead to a long-term military competition between our countries.

IDA and CISS should be able to lead the way for our two governments to address issues that currently are too sensitive to have meaningful talks.

As China continues its peaceful rise, our countries' objective should be shared, dependable expectations of peaceful change in East Asia and throughout the world.

## **2. Major General Gong Xianfu, CIISS**

East Asia is the world's most dynamic region with the fastest economic growth and the convergence of the interests of the major powers. China and the United States, the two major powers in the world, belong to the Asia-Pacific region and share immediate and important security interests as well as great responsibilities and obligations in East Asia. It is in the fundamental interests of the two nations to strengthen security cooperation in preserving peace and stability of the region and the world at large. But for various reasons, the two countries' security concerns in the region are not fully identical. Moreover, each side may have some misunderstanding or misinterpretation of the other's concerns. Therefore, it is very meaningful for us to exchange views on this subject. I hope we can increase our understanding of and take into account each other's security concerns in this region through candid exchange so as to have better cooperation on the regional security issues.

After the cold war, especially since the 9/11 event, the international security environment has undergone great changes. In order to obtain a favorable international and peripheral environment so as to concentrate on its economic construction, China has made great efforts to develop friendly and cooperative relations with foreign countries and its neighbors in particular. As a result, China is now facing a quite good international and peripheral security environment with more opportunities than challenges. But, there still exist some insecure and unstable factors in the region. My perspective on China-U.S. security concerns in East Asia are as follows (which is purely my personal views and does not represent the positions of any official institutions).

China's security concerns in East Asia:

1. The North Korea nuclear issue has witnessed ups and downs and is full of twists and turns, which has seriously affected the regional security and stability. Since the eruption of the North Korean nuclear crisis, the situation on the Korean Peninsula has been constantly tense. North Korea has blatantly conducted nuclear test undermining further the security and stability on the Korean peninsula and Northeast Asia as well. With the joint efforts of the parties concerned, the Six-Party-Talks on the North Korean nuclear issue achieved breakthrough in February this year, reaching an agreement on the initial actions and setting up five working groups. The parties concerned are

now making efforts to implement the agreement. The near-term prospect for the settlement of this issue seems good. But there is no quick solution in sight because of its complexity and long-standing hostility and mistrust between U.S. and North Korea. The North Korean nuclear issue concerns China's security interest and the overall situation of peaceful development. Whether North Korea possesses nuclear weapons leading to chain-reaction in the region or the regime collapses, China will face very stern security problems.

2. The United States is pursuing a hedging strategy towards China. On the one hand, the U.S. is attaching great importance to developing its relations with China. We are happy to see that with the joint efforts of the two sides, the Sino-U.S. relationship is now maintaining good momentum of development. On the other hand, the U.S. is harboring serious strategic suspicion about China's future course of development because of the contradictions and differences between the two countries in terms of social systems, ideology and values. In face of an increasingly stronger China, the U.S. is worried about a potential challenge from China to its dominant positioning the World. For that, the U.S. is strengthening its guard and prevention against China. It has stepped up redeploying its forces in the Asia-Pacific region and has substantially increased its naval and air forces in Guam with an attempt to build it into the power projecting center for the American forces in the region. At the same time, the U.S. is continuously strengthening its military alliance with Japan and Australia. With the full implementation of its redeployment plan, the superiority of the American forces in the region will be further expanded. Its capability of military intervention in the region will be enhanced. Of course, all these American military movements in the region can not be interpreted as attempting to contain or encircle China as some people suggest, it will certainly bring about greater strategic pressure on China.
3. Japan's political Right deviation and military external-oriented tendency is continuing to develop. Japan is set to revise its pacifist constitution and to exercise collective self-defense in the name of becoming as a normal country. The Japanese Diet has already passed the referendum law, which will pave the way for speeding up the constitution-amending process. Japan has also made substantial adjustment of its military and security policies under the excuses of anti-terror and coping with the North Korean military threat. Its military alliance with the U.S. has been further strengthened and significantly

transformed. Its scope has transformed from regional to global' its nature from defensive to offensive; its form from military cooperation to operational integration. The Japanese Defense Agency has been upgraded to the ministry of the cabinet. Japan has constantly breached the taboos of its security policy by getting rid of constraints on overseas dispatch of troops so as to play more military role in the international arena. The Japanese political and military trends will have negative impacts on the regional security and stability. Given the Japanese erroneous attitude towards the history issue, the regional countries including China are certainly concerned with Japan's future development.

4. The non-traditional security threats represented by international terrorism are on the increase in the region. The terrorist activities in some Southeast countries, especially those countries having large Moslem population, are rampant. Other non-traditional security problems such as trans-national crimes, drug trafficking, illegal immigration, money laundering, piracy, epidemic diseases, natural disasters, etc., have become the major security concerns of the regional countries. In many cases, China has always been one of the countries suffering the most.
5. There exist territorial and maritime rights disputes between China and a number of regional states. For example, China and Japan are having disputes over Diao Yu Island and the continental shelf on the East China Sea. Under the new circumstances, these disputes are heating up rather than cooling down. Some Southeast nations including Viet Nam, the Philippines and others have not only occupied some of China's islands in the South China Sea, but also have territorial claims over some islands under China's control. With the joint efforts made by the countries concerned, they have all agreed upon the Declaration on the Conduct of Parties in the South China Sea, which has helped mainlining comparative calm there. Nevertheless, the Chinese islands in the area have been encroached upon from time to time. If these disputes cannot be handled properly, it will not only affect the relations between China and some regional nations, but also undermine China's security interest and territorial integrity.
6. There have been some positive factors conducive to curbing "Taiwan Independence," but the Taiwanese authorities are still frenziedly carrying out their secessionist activities. In order to get out of the predicament, the

possibility that Chen Shuibian might go reckless to seek “de jure independence” through “constitutional reform” cannot be excluded, thus posing a grave threat to China’s sovereignty and territorial integrity. Although China and the U.S. have reached some consensus on the maintenance of peace and stability across the Taiwan Straits, differences on the definition of “de jure independence” and on how to interpret “de jure independence” act taken by the Taiwanese authorities might emerge between China and the U.S. Moreover, the U.S. government’s commitment to help defend Taiwan under whatever circumstances, or in other words, the U.S. will intervene even if the Taiwanese authorities have wantonly provoked the Mainland to use force, is bound to incur disastrous consequences for both China and the U.S.

As for the American security concerns in East Asia, I shall only list the following without elaborating.

1. North Korea’s scheme to develop nuclear weapons, especially its possible transfer of missiles, nuclear weapons and the related technology to other states or terrorist groups.
2. The possible military conflict across the Taiwan Straits. On the one hand, “Taiwan Independence” forces may go too far to challenge the Mainland if unchecked. On the other, the Mainland has never undertaken to renounce the use of force against Taiwan and might do so unprovoked.
3. The growing Chinese military power. The U.S. is very much worried about the uncertainties of China’s future development and its military threat, especially the great uncertainties of the future development of China’s military force and China’s research and development of high-tech weaponry. The U.S. believes that the enhancement of Chinese strategic capabilities has already tilted the military balance between the Mainland and Taiwan and its impact has far exceeded the Asia-Pacific region. China’s development of its disruptive military technology will neutralize American traditional military superiority. In a nutshell, the U.S. is concerned with both China’s military capabilities and intentions.
4. The non-traditional security threats in the region. The U.S. is particularly concerned with the terrorist activities in Indonesia and the Philippines and the safety of the regional sea-lanes including the Malacca Strait.

From the above, we can see China and the U.S. have much more common security concerns than not. And the different security concerns of the two sides are mainly coming



from the mutual strategic suspicions. For one example, China has made it very clear that it will not use force against Taiwan unless it is provoked to do so by Taiwanese authorities seeking Taiwan's "de jure independence," but the U.S. cherishes strong suspicions about this. For another, China has stated many times that it has no intention to challenge the U.S. militarily, but some people in the U.S. have repeated the notion that China will seek the dominant position and finally evict the U.S. from the region. If each side can have better understanding of and take into account other side's concerns, China and the U.S. will have productive cooperation on regional security issues, thus promoting peace and stability of the region and the world as a whole.

## **B. SESSION 2: NORTH KOREA**

The discussion in Session 2 centered on a topic of concern for both the United States and China–North Korea. Dr. Hassig of IDA traced Chinese attitudes since the fourteenth century, and Chen Yongxing of CIISS described the DPRK nuclear crisis and its domestic situation.

### **1. "North Korean Attitudes" by Dr. Kongdan (Katy) Oh Hassig, IDA**



## **THE NORTH KOREAN WORLD VIEW**

Kongdan Oh Hassig  
Institute for Defense Analyses

IDA-CIISS Seminar  
June 19, 2007







## **Dynastic Period (Choson Dynasty: 1392–1910)**

- For Koreans, China was the center of the world (Ming and Ching Dynasties)
- Japan was an uncivilized country, borrowing culture from Korea
- Xenophobia, especially toward Westerners, was strong
- Korea's "closed door" policy kept it socially isolated from the outside world
- Ethnic purity and homogeneity were emphasized
- Koreans were eager to learn about China, but not about Japan or other countries
- The Japanese invaded Korea in 1592 and the Manchus in 1627
- Korea yielded to Japanese political and military power in 1905; was annexed in 1910

중국 화가 《마란산의 아동탄원자들을 환함에 안아주시는 아버지수령 김일성장군님》 원구명, 윤신익  
 中国《慈父领袖金日成将军到马鞍山，拥抱儿童团员》袁奎明，尹信毅



## Colonial Period (1910–1945)

- The Japanese subjected the Koreans to severe discrimination
- Koreans lost land, jobs, property, and self-respect
- Japan became the evil empire; America was far away and disinterested; China was a poor neighboring country; Russia was cold and forbidding
- Resentment grew toward all imperial powers, including Japan and US
- Korean nationalism: "We must regain our land and live among Koreans without Weanom (Japanese dwarfs), Chungguk ttwaenom (Chinese "Chinks"), and Roskenom (Russian bears)"



## Post-War Transition Period (1945-1950)

- Politicians returned from overseas refuges in China, Russia, Europe, US; also, from South Korea
- North Korea became a marketplace for politicians selling their platforms
- Japanese hastily departed; Russians came and behaved like bandits: raping, stealing, destroying; "Roskenom are worse than waenom."
- Most Koreans were too busy trying to make a living to pay much attention to national politics
- Kim Il-sung was imposed by the Soviet government; people began to hear stories about his military career
- Many North Koreans (including one of my uncles) moved to the South to avoid the communists





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## Korean War Period (1950–1953)

- Yet another war; people naïvely followed their leader, Kim Il-sung
- People believed the US-ROK started the war, and this was the chance to reunify the country
- Hatred developed toward Americans for keeping the country divided
- Koreans believed the worst stories about American soldiers in the war: Sinchon museum
- Americans replaced Japanese as the sworn enemy
- People believed the propaganda that South Korea was an American colony, under a traitorous puppet government
- The war divided 7 million family members (including my family)
- Chinese troops saved Kim Il-sung; China-NK relationship was said to be as close as lips and teeth
- Russia was given little credit for its limited wartime assistance







## Post-Korean War to German Unification (1953–1989)

- Unification under socialism became the North Korean national goal
- Heavy-industry national economy built to prepare for reunification by military means
- NK developed working relationship with Eastern Europe, China, and USSR
- US, Japan, and South Korea were the top enemies
- However, Soviet hegemonism, de-Stalinization, China's Cultural Revolution, and later, Chinese and Russian detente with the US forced North Korea to take an independent stand and cultivate the new national ideology of *Juche*
- For regime, severe competition with South Korea for political and economic dominance
- People believed South Koreans lived in poverty as slaves of the Americans
- NK joins non-aligned movement to gain legitimacy outside communist bloc, but was rejected for being communist and too strange
- Kim Il-sung's Juche thought gradually replaces Marxism-Leninism
- Juche teaching that people are the masters was never taken seriously by people



## Post-Cold War to Death of KIS (1989–1994)

- German unification put North Korea on the defensive; falling communist dominoes?
- “Our own style socialism” became the slogan
- Hardship of former communist states was used as a lesson for the people and top cadres
- North Korean economy was destroyed by end of socialist markets
- Kim Il-sung died in 1994; people were in shock; Kim Jong-il said, “expect no change from me”



## Kim Jong-il Era (1994-present)

- Kim Jong-il era begins with massive famine, called “Arduous March”; 600,000 to 2 million die between 1995 and 1998
- NK economy becomes almost entirely dependent on foreign aid
- Kim Jong-il declares “military-first politics” to replace irrelevant Juche
- For protection and aid, Kim regime pushes inter-Korean reconciliation
- US remains sworn enemy; Japan is number two enemy
- China and Russia are not trusted
- South Korean conservatives are viewed as enemies
- Regime pretends that unification “by our united national efforts” is the goal, but appears committed to eventual communist takeover of the South
- On the surface, inter-Korean relations are improved, but strong hostility from Kim regime lies just under the surface











## Propaganda Themes

- “Korea for Koreans”
- “An ideologically strong state, trying to rebuild its economy”
- North Korea as world's leading socialist country; highly respected
- Kim Jong-il is key to North Korea's continued independent existence
- Socialism is struggling but will eventually defeat capitalism if people have faith
- Military-First is only guarantee of national survival





## The Elites

- Generally well informed but inexperienced about the outside world; preparing for the ship to sink
- Ignore ideology and devote energy to economic survival in illegal market economy
- Try to avoid getting into political trouble in last years of regime









## The Masses

- Suspicious of all other countries (xenophobia); naively hate the US and Japan
- Getting hints about better life in China, South Korea
- Know something is seriously wrong with socialism but don't know what to do
- Devote energy to economic survival in illegal market economy
- Have no faith in Kim regime but don't protest in order to avoid political trouble



## North Korea's Possible Futures

- If the Kim regime resolves the nuclear issue, massive foreign aid will support the status quo, with painfully slow economic reform and no political change
- Much more likely, if the regime does not resolve the nuclear issue and Kim or his son continues to rule, the people will increasingly ignore the regime and pursue small-scale capitalism
- If Kim dies or is incapacitated and the NDC tries to run the country (perhaps with one of Kim's sons as figurehead), people will more openly pursue capitalism and begin to engage in local politics
- If Kim is overthrown in a coup, battles between rival military and security organizations will destroy the government, and national political movements may emerge
- In the latter two scenarios, China and South Korea may compete to create a new semi-autonomous North Korea under the influence of China economically and South Korea politically

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## 2. “DPRK Nuclear Crisis and Its Domestic Situation” by Chen Yongxing, CIISS

The Korean Peninsula is situated at the center of Northeast Asia, a strategically important area with complicated and sensitive regional politics. For a long time, that region has been unstable. Now the world is most concerned about the North Korea (NK) nuclear crisis and its internal situation. I am going to present my modest opinions here on these issues just for your reference.

### a. About the NK Nuclear Crisis

The NK nuclear crisis is a prominent factor influencing the regional situation. Its causes are deep rooted, and its final direction is not clear.

NK's nuclear armament development is an extremely wrong approach to deal with its survival crisis. In the late 1980s, the shock of Gorbachev “New Thought” and the widening unfavorable differential in real power with South Korea (SK) created NK's sense of crisis. The sudden changes in Soviet Union and Eastern Europe and the quick unification of East and West Germany sharply increased its sense of crisis.

NK decided that the only way to create an environment for survival and recovery was to completely unlock the relationship with U.S., the world's super power and the real benefactor behind both SK and Japan. Unfortunately, NK did not succeed. As a result, it

blamed the U.S. for insisting on its hostile policy toward NK, and considered the U.S. as a serious threat. The very same situation led to two NK nuclear crises.

NK's development of nuclear arsenals has a twofold intention: the first is to add penalties for U.S. to use its forces against NK to increase its chance of self-preservation; the second is to use nuclear threat to touch U.S. nerve to lead to its long desired one-on-one discussion with U.S., to negotiate adequate return for dismantling its nuclear program.

NK's nuclear development has seriously impacted on the international non-proliferation regime, triggered regional tension and placed itself against the whole international community

There is hope that NK will eventually abandon its nuclear program. The main reasons are:

- NK can not sustain prolonged international pressure. If it insists on retaining its nuclear power, it will meet with even stronger international sanction, more isolation and serious reduction in foreign aid. NK is already weak, has serious problems to sustain. The collapse of its economy would accelerate, and could lead to political crisis.
- NK faces strong opposition from China. China is neighboring NK, and is a responsible big nation. Considering its own interest, or regional, even global common interest, China is firmly against NK's possession of nuclear weapons. China's strong attitude toward NK's nuclear testing serves as a stern warning. China is NK's most important benefactor; China's opposition makes NK to think three times before taking any action.
- NK has not completely given up its desire to deal with U.S. Using dismantling nuclear program in exchange for returns and the complete un-lock of the relationship with U.S. remains as an option for NK. Under urgings from various countries, NK will evaluate the pros and cons. There is a possibility that NK will lower its demand, and move toward total dismantling of its nuclear program.

Peaceful resolution of the NK nuclear issue is quite difficult for the following reasons:

- The international community has limited means to deal with the issue. Historically, many countries which opposed nuclear development were able to carry out low level sanction, but in the end, resigned to accept the fact to let them possess nuclear weapons.
- The serious lack of mutual trust between NK and U.S. The two sides have years of confrontation. There is not much trust at all as a political basis for a complete reconciliation.

- There are four difficult issues: the deactivation of NK's nuclear facilities; accounting NK's nuclear weapons and its verification; handling of existing nuclear weapons; and the light-water reactive pile. These are hard issues to resolve and are likely to cause serious recurring argument.
- The resolution of NK nuclear issue is tied to the Peace Framework on the Korean Peninsula. The push for NK to abandon its nuclear development is connected to the negotiation of the Peace Framework. The two issues are interconnected, difficult and complex.
- The key issue is it is not certain whether NK will decide to disband its nuclear armament completely. To possess nuclear weapons for self-preservation is one of the options. NK will continue to evaluate the situation, in particular, the U.S. attitude. We have to wait and see whether it will make the political decision for nuclear dismantlement. Besides, it will likely be influenced by the political situation in the U.S. and the direction that the Iran nuclear crisis takes.

#### **b. About the NK Internal Situation**

In recent years, NK has made the maintenance of internal stability the number one priority, and at the same time, has been paying more attention on its economic progress, but the domestic situation is still dire.

NK has been able to maintain a stable condition. There has not been any organized force inside NK to challenge Kim in recent years. Kim has firm control of the country, and his position has been solid. The upper echelon of power has maintained its general structure, and there has not been any spectacular change in personnel, and the society has not experienced any serious disturbance.

NK can maintained this condition because Kim has held the highest position for years to form a relatively stable control group, and most importantly, he relies on three key systems:

- The “Military First Politics.” Kim firmly believes that control of the military is the key to manage the country. He not only controls the armed forces, but places them at the central position in the national political and power structure.
- Tight Internally Control Organization. Citizens from youth to the end of their lives are basically under constant surveillance and control.
- “Loyal to the Leader” The government strictly blocks the infiltration of “corrupting thought” from outside, instills “Loyal to the Leader” mind education, worships Kim and establishes his absolute authority, and openly asks citizens to be his "Death squad" and “bullets and ammunitions” to protect him.

NK has limited success to revive its economy. NK has increased its economic efforts, put emphasis on agriculture, especially crop production; established and

expanded free market; pushed for economic corporation with SK; elevated the concept of “Resource and Technology Complement Each Other” for economic cooperation with the outside world; paid attention to the development of science and technology; emphasized the study of a market economy; explored and borrowed from the experience of China.

But, NK has not yet reoriented its priorities to economic development. It insists on outdated economic models and direction, and the economic and living conditions remain difficult. Energy sources, raw materials, and transportation are very limited; industries have less than 30% usage rate; consumer products are scarce and of poor quality. NK is seriously short in reserve of foreign exchange, and has many problems: run-away inflation, little ability to sustain agriculture through a natural disaster, inferior quality of seeds, and outdated agriculture techniques.

Except that the crop product has increased in the past two years, there is little sign of improvement. It is estimated that NK will be short of 1,000,000 tons of grains to meet the minimum requirement. Supply of grains and staples are seriously inadequate, and civilian lives remain extremely difficult.

There are still many unstable and uncertain factors. Because Kim is still in firm control, the aforementioned three systems will continue to have effect. SK and other related major countries do not have the intention to change NK’s political status. It is not likely that any disturbance will occur in the near future. But NK overall will remain in a crisis situation because of the following four reasons:

- *Economic Factors.* NK can not revive by itself without foreign aid; it can not possibly turn around its withering economy. This is the biggest problem NK has to face.
- *Social Factors.* NK has increasing difficulties to block outside information, especially due to the developing relationship between NK and SK. SK’s influence in NK has been expanding and one of the days, it is going to have serious impact on the society.
- *Outside Factors.* Conflicts caused by the NK nuclear issue are both intense and complicated. There is no hope for a quick and easy resolution. NK’s isolation in the international community will not experience any basic change in the near future, and at the same time, the serious imbalance between the two Koreas will accelerate.
- *Political Factors.* The extreme authoritarian system has many suppressed problems and Kim is getting old without an heir apparent. If anything happens, it would bring in new variables to the political situation that one has to pay special attention to and be concerned.

**c. Potential Damages to China's and the U.S.'s Interests if NK Insists on Possessing Nuclear Weapons**

The denuclearization of the Korean Peninsula is the common goal of the U.S. and China. Even though the NK nuclear issue has some important break-through, the future does not warrant optimism. It is far from certain that NK would completely abandon its nuclear program. If NK would insist on marching down the nuclear armament route, it could seriously damage the interest of both China and U.S.

**Possible Damage to China and U.S. Political Interests.** China sponsored the six-party talks and is traditionally a friendly county to the NK. The U.S. is the most powerful country in the world. If NK would openly defy their request and insist on possessing nuclear weapons, the world would question U.S. and China's political prowess and wisdom. It would damage U.S. and China's political reputation, thus prevent them from using their influence on international and regional matters.

**Potential Damage to China's and U.S.'s General Interests.** It is well known that the U.S. has many important interests around the world. China, with its fast development and its immersion into the international community, sees changes in many areas of the world being tied to China's immediate interests. If NK would insist on its nuclear program, it would impact the Nuclear Non-Proliferation regime and stimulate those countries, those that are close to possessing nuclear weapons, to go ahead with the development. This would definitely impact China's and U.S.'s interests, especially the U.S.'s.

**Potentially Serious Damage to China's and U.S.'s Strategic Interest in Northeast Asia.** If NK would insist on possessing a nuclear arsenal, no one can guarantee that it would not start a domino effect in Northeast Asia. We can see the danger, as shown by the facts that both SK and Taiwan have secretly tried to develop nuclear weapons, and that Japanese politicians have made exploratory talks about developing nuclear capabilities after NK's nuclear test. If such nightmarish things start to happen, the strategic situation of Northeast Asia would experience serious changes unfavorable to both U.S. and China. China would be surrounded by nuclear powers, have its strategic environment seriously deteriorated, and have its unification plan more difficult to carry out. Nationalism of both Japan and Korea will rise, and Japan may move forward to become a super nuclear power. U.S.'s influence on Japan and Korea would decline significantly. The strategic advantage U.S. has enjoyed in that region would be severely reduced.



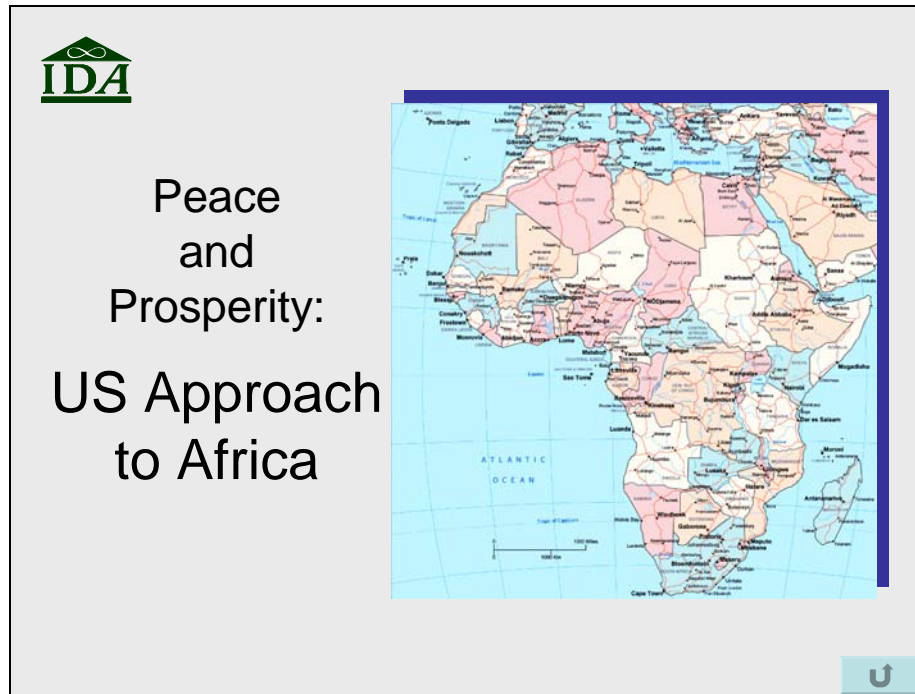
It should be pointed out that if NK insists on possessing nuclear weapons, it would force both the U.S. and China to make difficult choices. China has to consider not only the reaction from the international community and its internal responsibility, but also the impact of a collapsed NK on its ocean security as well as the surrounding regional society. It would be a serious dilemma to China. If U.S. would take military action, it would force China to make a very difficult decision. If U.S. shows its' feebleness, it would lose the dignity of a super power and have to worry about the serious consequences of the expansion of nuclear power. If the U.S. would use force, then it would face huge resistance, high risk and the deterioration of relationships with China, Russia and S.K. The negative effects of military action are beyond imagination.

To deter NK nuclear arming, both China and U.S. have especially high responsibility. Both sides have to make additional efforts to coordinate, cooperate, and actively seek a peaceful resolution of the NK nuclear issue to accomplish the historical mission of non-nuclearization of the Korean Peninsula.

### **C. SESSION 3: PEACE AND PROSPERITY IN AFRICA**

Colonel Chester Arnold of IDA presented the U.S. approach to Africa, and Dr. Chen Wei describes Sino-African relations and China's Africa policy.

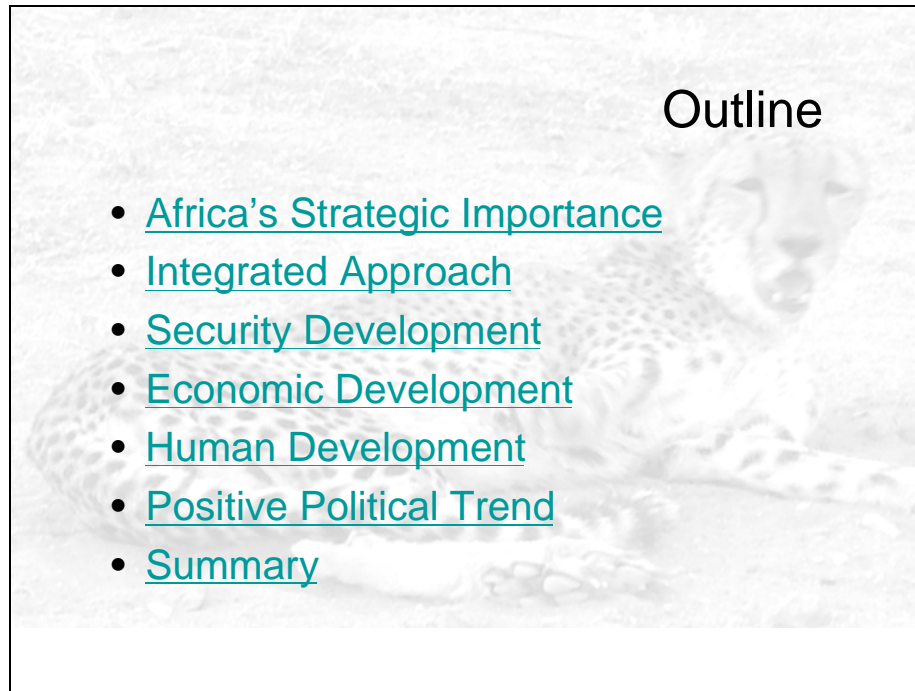
## 1. “U.S. Approach to Africa” by Colonel Chester Arnold. IDA



Let me first say that the opinions expressed here are mine and are not necessarily the views of the Institute for Defense Analyses or the government of the United States.

The Peoples Republic of China, the United Nations and the United States, to name a few all have something very important in common, a keen interest in Africa. The history of involvement varies, but the strategic importance of Africa has become clear and for good reason. The U.S. National Security Strategy is founded on the notion that it is in our interest to promote freedom, justice and human dignity and to promote prosperity with free trade and long term development policies. This strategy seeks to encourage and support African efforts to build capacity throughout their governments and societies so they might one day provide security and promote sustainable development for their people. Likewise, the Peoples Republic of China's African Policy pledges to work with the Africans in these same areas including human rights, free trade and combating threats to security and prosperity such as terrorism and transnational crime. Finally the UN Secretary General's recent report to the Security Council on cross-border issues in West Africa highlights the fragility of human security which includes physical security from violence, public health and economic opportunity and recommends that Africa's partners expand their security sector reform strategies to include economic development and good

public health practices. An analysis of these declared policies clearly reveals an opportunity for cooperative engagement in Africa.



The strategic importance of Africa has always included the varied and abundant natural resources found on the continent that are critical to the health of a global economy which continues to grow at historic rates. Africa has now also become important in efforts to combat extremists and their terror tactics and the transnational criminals that sap economic potential and are now known to fund extremist activities. Access to important natural resources and winning against extremists is best guaranteed by a secure, developed Africa operating openly in the global economy, providing economic opportunity and basic human rights to the people of Africa.



## Africa's Strategic Importance

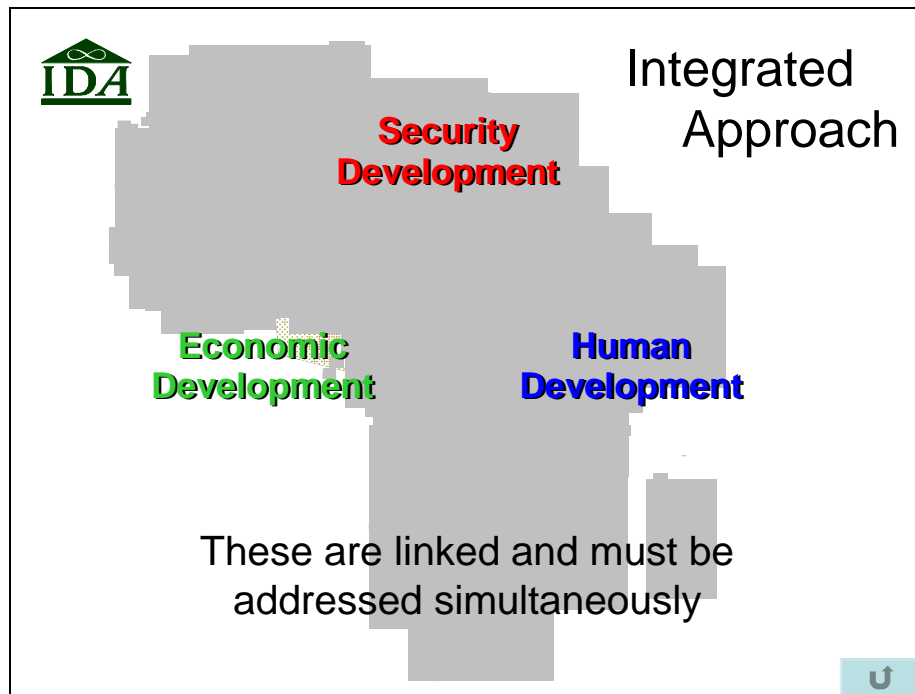
African security affects Global security

- Lack of security in Africa
  - Provides opportunity for extremists
    - Ungoverned areas are havens for criminals and terrorists
    - Uncontrolled borders and coastlines lead to “wholesale” smuggling and piracy ⇒ \$\$\$ to extremists
    - Broad social and economic problems provide fertile ground for extremist recruiters
  - Hinders access to resources critical for global economy
- Lack of security rooted in poor governance and ineffective economic and human development
  - Leads to weak/failed states
  - Squanders human/economic potential
  - Provides greater opportunity for extremism



The focus of U.S. foreign policy on Africa was sharpened by the 1998 embassy bombings in Kenya and Tanzania. At times, that focus has been myopic but as the U.S. has become ever more engaged on the African continent it has become apparent that peace and prosperity in Africa directly affects peace and prosperity in the United States. Working with African partners the U.S. intends to help build the capacity of African institutions to provide security and economic opportunity to an ever greater number of people in the region. Rampant piracy off the coast of Somalia, continued violence in the Niger Delta and the roving bands of marauders plaguing the villages of the Democratic Republic of the Congo are but a few examples of how Africans are being robbed of their great potential. In the Niger Delta alone it is estimated that the revenue lost due to oil theft is greater than the sum total of all international aid to the continent. Realizing African potential will require African resolve bolstered by the coordinated support of the international community. In order to address immediate concerns, there must be a wise application of greatly increased levels of humanitarian aid to relieve growing pressure on the people of Africa. This must be coordinated with a long term development plan that includes building the capacity and transparency of government and societal institutions. Through improved governance, reduced corruption, and market reforms, African nations can move themselves toward a better future. The U.S. is committed to working with

African nations to strengthen their domestic capabilities and the capacity of the Africa Union and other regional organizations.



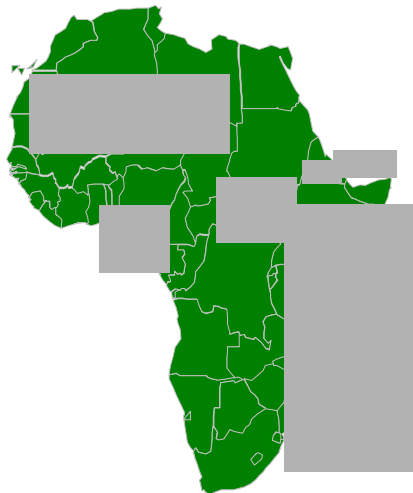
Decades of international intervention in Africa in the form of humanitarian aid and peace operations have not resulted in lasting solutions. Recent analysis by Foreign Policy magazine, based on extensive research done by the Fund for Peace, has ranked the potential for state failures across the globe. 8 of the 10 states most likely to fail are in Africa. The fragile condition of these states not only exposes their own populations to violence, deprivation and disease it also adversely affects neighboring states. The deplorable conditions in the Darfur region of Sudan and the international community's lethargic response have worsened human security in Chad to the point where the French government has recently ordered their military to begin airlifting humanitarian aid to eastern Chad. Certainly the aid is needed, but without strengthened institutions and long term economic development and basic human security, the cycle will continue and African peace and prosperity will continue to be an elusive goal. It is important to consider that in regards to the ongoing struggle versus extremism and transnational crime, the best weapon is the local population. Those who would use terror to advance their cause take advantage of disenfranchised populations. Security forces anywhere are best armed by the information that only the locals can provide. This type of cooperation can be developed using an integrated approach to security that includes human and economic development.



## Security Development

African security affects Global security

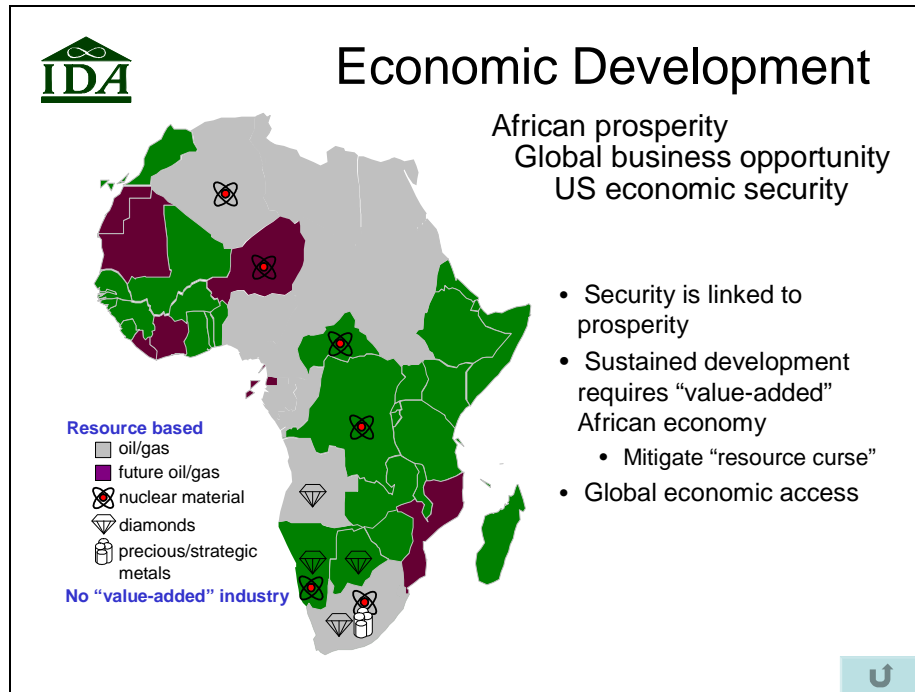
“An ounce of prevention is better than a pound of cure”



The chart depicts some of the areas in Africa that cause the greatest security concerns primarily for Africans but also for the international community. Interestingly, even in the face of weak government institutions that struggle to provide the most basic services and the crushing poverty especially among a large percentage of Muslims, field research suggests that extremism has not taken root on a large scale in Africa, but it is growing. There seems to be a cultural resistance to extreme ideologies that has hampered efforts to recruit young Africans for the global jihad. Even with Persian Gulf funded organizations promoting their views by building mosques, providing services through charitable institutions and most ominously by offering free education to the children, resistance to their extreme views continues. I have seen myself the poverty of the Muslims in east Africa, which is reported to affect as much as 50% of the population in some areas, and I have been shown the Saudi funded schools, clinics and mosques run by those that teach the extreme views of the Salafi-jihadists who seek to spread their extreme views. Local African governments are, by in large, not capable of effectively countering extremist activity. The U.S. is committed to building the capacity of African governments to meet the basic needs of their citizens and to interdict extremist activity. In fact, the Combined Joint Task Force – Horn of Africa, originally established to directly engage the terrorists now spends a great deal of their effort in development related activities. The opportunity remains for the international community to cooperatively encourage the Africans by insisting their governments move toward greater transparency, by providing

significant levels of aid as part of a larger economic development plan that will free a continent currently in bondage to the resource curse of a commodities based economic system which is providing little for the larger percentage of the African population.





While it is important to remember that African problems require African solutions, we would be remiss not to search our own economic success for the enduring principles by which we can then encourage Africa. China’s own economic reforms over several decades have resulted in the largest reductions in domestic poverty levels in history. Notably, in both the U.S. and China, economic reforms began in the agricultural sectors and focused on allowing for more individual responsibility and individual reward for labor. Real wealth rests in the surplus production of a society’s people, not in the commodities. The opportunity for individual responsibility and prosperity within a society depends on the government creating an environment where the industry and energy of the people can be unleashed. Peruvian economist Hernando De Soto conducted an historical analysis of U.S. economic success and applied those lessons in Peru and elsewhere in the developing world clearly demonstrating the importance of establishing a system that acknowledges the private sector. He argues and clearly demonstrates in the field that the role of government is to facilitate the capitalization of the vast unrealized wealth in the developing world by reducing corruption, increasing the transparency of government institutions and providing security and opportunity. In Peru, a once disenfranchised and in some areas terrorized population entered the open economy and helped to marginalize those forces competing with the government thereby helping the government to provide even greater security and then greater opportunity. In the area of agriculture, West Africa and the Sahel offer great promise as the breadbasket for all

Africa, a continent whose cupboards are kept bare by governments unwilling or unable to create an environment where individuals have the opportunity to prosper. Economic opportunity that results in increased prosperity for a large portion of the African population will result in greater security that will serve to strengthen what many have observed is Africa's natural resistance to extremist ideologies.

Note:

Resource curse—an abundance of easily obtainable natural resources may encourage internal political corruption, underinvestment in domestic human capital, and a decline in the competitiveness of other economic sectors.

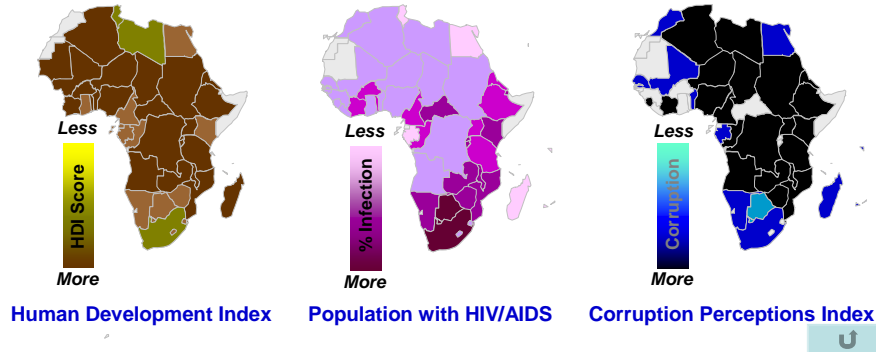
The modern rentier state derives most of its revenue from natural resources through political influence, monopolies, trading restrictions, and soliciting subsidies or aid in exchange for political influence



## Human Development

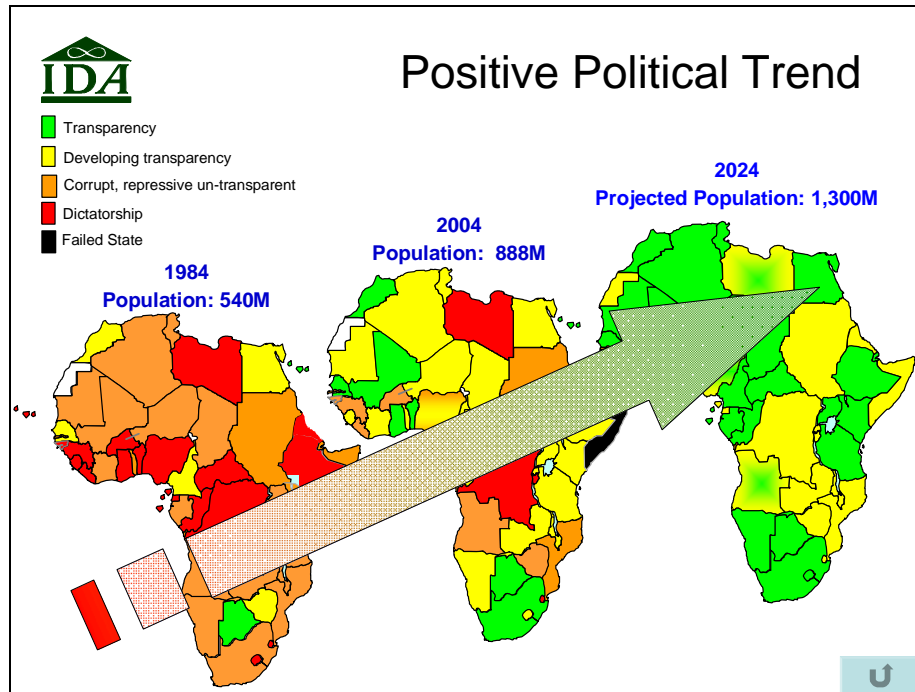
*The strength of a nation derives from the integrity of the home*

- Conditions are the worst in world
- International response focused on assistance
  - less than the estimated revenue lost from oil theft in Nigeria alone
  - assistance is dwarfed by criminal enterprise
- Must re-orient from assistance to sustained development




In addition to the long term economic development that is needed to help ensure African peace and prosperity there is great need for humanitarian aid. Some with experience in international aid suggest that selectively applied humanitarian aid as part of a long term development program is more likely to have a lasting effect. According to United Nations historical records, in the last several decades despite all of the government and private sector aid that has been spent on Africa, there has been no significant improvement in human development. The U.S. alone has spent hundreds of billions of dollars over the last 40 years and still Africa has the high level of poverty, pandemic disease outbreaks, declining life expectancy and rising infant mortality rates. With roughly 13% of the world's population Africa is estimated to have over half of the worldwide HIV/AIDS cases. Recognizing the devastating effect of disease on the people of Africa, the U.S. has recently doubled its commitment to the fight against AIDS to include caring for an estimated 10 million AIDS orphans and has begun an initiative to cut in half the rate of malaria deaths. Also, the U.S. is working to bring public and private sectors together to increase the productivity of African farmers, providing funds for clean water and has tripled education assistance. Ultimately, there can be no peace and prosperity in Africa if the families are being devastated by disease, hunger and illiteracy. Relieving the immediate pressure on the people of Africa is important, but must be done concurrently with a long term development plan aimed at unshackling the human potential in Africa.

Notes: Since its inception in 1995, there has been little change in the CPI; HDI components are life expectancy, adult literacy rates; combined gross enrollment ration for primary, secondary and tertiary schools; and GDP per capita.



There appears to be an upward trend regarding the transparency of governments and financial systems but it is a thin veneer over a very turbid continent. One does not have to go far to witness firsthand the devastating effects of poor governance and hundreds of years of exploitation of the people and resources of Africa. Even as the Sudanese agree to accept UN peacekeepers, humanitarian aid workers are under attack as they work to deliver 2.1 million metric tons of food each year to over 450 locations. Ultimately, the solutions for Africa must be African but its strategic importance obliges the international community in partnership with Africa to intervene and promote peace and prosperity. It is the integration of human, economic and security development encouraged and supported by the collective efforts of the international community that will help ensure that Africans continue to build on success and develop solutions that will help promote peace and prosperity not just in Africa but across the globe.

- **Security Development**
  - African security affects Global security
  - Proactive versus reactive approach
- **Economic Development**
  - Prosperity is linked to security
  - Prosperity requires “value-added” African economy
- **Human Development**
  - Humanitarian issues directly impact security
  - Corrupt government is the main obstacle to success

While it seems clear that the problems of Africa will not be solved anytime soon, it also seems clear that if the international community approaches Africa from the perspective of our ‘shared interests’ on the continent that the chances of successfully building the capacity of African institutions are greatly improved. It is incumbent upon those who seek to gain from Africa’s potential that they invest in its future by promoting a better, freer and more prosperous Africa. I’ll close with the words of a former president of the American University in Cairo, Dr. John Badeau. In a speech given to the Economic Club of Detroit, Michigan on the 2nd of November 1953, in which he addressed the issues of peace and prosperity, Ambassador Badeau advised that “we must lift our sights above military preparedness and defense and begin to look at the human problems, the human hopes, the human aspirations, which in the end are the arbiters of history. [We]... cannot buy friendship and [we] don’t help people in the long run by providing handouts.... [I]ncreased domestic production that increases the economic wherewithal of the local population, not just the elite, goes a long way to stabilizing the masses of poor and restless people.” I think Ambassador Badeau understood in 1953 what we see in Africa today, peace and prosperity depend upon human and economic development and they are inextricably linked to security. Thank you.

## **2. “Sino-African Relations and China’s Africa Policy” by Dr. Chen Wei, CIISS**

China is the largest developing country in the world and Africa is the continent with the largest number of developing countries. The population of China and Africa combined accounts for over one third of the world’s total. China has established diplomatic ties with 48 of 53 African countries.

Sino-African relations are an important cornerstone of China’s diplomacy. It is China’s long-term strategic choice to strengthen and develop friendly and cooperative relationship with African countries. To promote solidarity and cooperation with African countries has always been an important component in China’s independent foreign policy of peace. Over the past half century, China and Africa have supported each other in the struggle for national liberation, maintained cordial cooperation for development and actively coordinated in international affairs. As the permanent member of the UN Security Council and the biggest developing country, China has all along attached importance to consulting and cooperating with African countries in dealing with international affairs, speaking for Africa over justice and defending its interests. As said by Chinese President Hu Jintao Chinese people and African people are good friends, good partners and good brothers.

Despite the vast geographical distance and the huge difference in cultures and development levels, China and Africa, due to the same experiences of Western colonial rule, share some common or similar modern identity and the role of the times. Accordingly, in the latter half of the 20<sup>th</sup> century, they established a bilateral relationship during the process of pursuing national independence and liberation, building up new nation states and developing national economy. Especially since the 1960s, when the Africa continent saw the emergence of a series of newly-independent countries, Sino-African relations underwent rapid development. China will never forget the full support rendered by African friends to its resumption of legitimate seat in the United Nations.

The late 20<sup>th</sup> century began to witness major changes in the international arena, as well as in China and Africa themselves. China adopted reform and opening-up policy and its economy experienced rapid and sustainable growth. Likewise, the focus of Africa was shifting to economic development after the initial stage of establishing nation states. Under the new conditions in such a historical background, Sino-African relations obtained new foundation and impetus. The nature and content of Sino-African relationship was being transformed into one of new type, which is market and economic

interests-oriented. In the new contest China and Africa share expanding common interest and have increasing mutual demands toward each other.

#### Recent Major Events in Sino-African Relations

*First, in January, 2006, the Chinese government for the first time issued the paper on China's Africa policy.* The paper stresses China's firm commitment to inheriting traditional Sino-African friendship in the new circumstances and to developing the new-type strategic partnership, and declares the objectives and measures of China's African policy. The overall principle and objective of China's African policy are: sincerity, friendship and equality, mutual benefit, reciprocity and common prosperity, mutual support and close coordination, learning from each other and seeking common development.

*Second, in November, 2006, the Beijing Summit of China-Africa cooperation Forum was held.* The China-Africa Cooperation Forum was established in 2000 under the joint initiative of China and Africa. In the following six years, the forum has become an important platform and effective mechanism for holding collective dialogue, enhancing mutual trust and conducting pragmatic cooperation between China and the African countries. Forty-eight African countries participated in the Beijing Summit. The summit adopted two guiding papers: the Declaration of the Beijing Summit of the China-Africa Cooperation Forum and the China-Africa Cooperation Forum Beijing action Plan (2007-2009). The Chinese and African leaders unanimously agreed to establish and develop a new type of China-Africa strategic partnership featuring political equality and mutual trust, economic win-win cooperation and cultural exchange. They outlined the blueprint for promoting China-Africa cooperation in the next three years.

*Third, in February, 2007, Chinese President Hu Jintao paid visit to eight African nations, including Cameroon, Liberia, Sudan, Zambia, Namibia, South Africa, Mozambique, and Seychelles.* President Hu's African tour is not only a journey of friendship and cooperation but also a journey of pragmatism and implementation. Leaders of all these African nations expressed willingness to develop and strengthen Sino-African traditional friendship and cooperation.

*Fourth, in May, 2007, the African development Bank (ADB) held its annual board meetings in Shanghai.* This is the second time for ADB to hold its annual board meeting in places outside Africa and the first time in Asia.

Major measures taken by Chinese government to strengthen Sino-African relations



*Firstly, forge friendship, maintain close political dialogue and coordination, and increase mutual understanding and trust.* China maintains good momentum of conducting high-level exchanges and visit with African nations which have diplomatic ties with China, and steps up strategic dialogue on major issues of mutual interest to increase common understanding. China firmly supports the African countries in upholding independence and sovereignty and pursuing models of development suited to their own national conditions. China has not imposed and will not impose its own will and unequal measures to other nations. It firmly supports the African countries in upholding independence and sovereignty and pursuing models of development suited to their own national conditions. China has not imposed and will not impose its own will and unequal measures to other nations. It firmly supports the African Union, other regional organizations and the African countries in their efforts to promote peace and stability. China is ready to play a constructive role in helping Africa resolve its differences and disputes by itself. China will remain actively involved in U.N. peacekeeping operations in Africa (China has up to now dispatched about 1,300 peacekeeping personnel and civil police to Africa.).

*Secondly, deepen cooperation and expand economic and technological exchanges to achieve mutual benefit and win-win progress.* Economic and technological cooperation are an important foundation for growing Sino-African relations. China strives to expand mutually beneficial cooperation and draw on comparative strengths with Africa, diversity ways of conducting Sino-African cooperation and to expand its cooperation with Africa from the trade-oriented one to more balanced one, including trade, investment, technology and projects contracting. Priority is given to the cooperation in such areas as agriculture, infrastructure, manufacturing and public welfare projects that are vital to people's livelihood. Sino-African trade volume reached \$55.5 billion in 2006, a 40 percent increase than that of last year. The Chinese government will continue to take active steps to increase import from Africa to balance the trade between the two sides. The Chinese government encourages Chinese companies to increase investment in Africa, provide technical and management training and help Africa develop processing and manufacturing industries so as to ease employment pressure and enhance the competitiveness of exports. The Chinese government will fully implement the eight policy measures announced at the Beijing Summit for strengthening pragmatic cooperation with Africa and supporting its development in the next three years, which include increasing the assistance to Africa with the scale doubled, remitting debt owed by heavily indebted poor countries and the least developed countries in Africa, further

opening up market to Africa and providing education and training of different types of personnel, etc., so as to expedite socio-economic development, enhance capacity-building, improve people's livelihood and bring real benefit to the African people.

*Thirdly, strengthen dialogue and exchanges in culture between the China and Africa and make common progress through mutual learning.* The Chinese and African peoples both created splendid cultures in the long course of history. China is willing to bolster exchanges and interactions between the China and African in culture at different levels and in diversified forms to enhance mutual understanding and friendship between Chinese and African peoples. Efforts should be made to strengthen cooperation in education, science, technology, public health, culture, sports and tourism. What is particularly important is to enhance exchanges between Chinese and African youths. Up to now, over 20,000 African students studied in China on Chinese government scholarships. In the next three years, the Chinese government will invite 500 African youths to visit China.

*Fourthly, treat each other as equals and strengthen cooperation in international affairs and to uphold the legitimate rights and interest of developing countries.* It involves working together to uphold the purposes and principles of the UN Charter, enhancing consultation and coordination at the United Nations and other multilateral institutions, jointly meeting global challenges and stepping up consultation and cooperation on non-traditional security issues, promoting South-South cooperation and North-South dialogue, and calling on the international community to focus attention on Africa and to take effective steps to help African peoples resolve their difficulties.

Recently, some western media and sources slandered Sino-African relations which can be mainly summarized as the following three points: firstly, they blamed Sino-African trade cooperation as China's "neo-colonialism" in Africa; secondly, they spread the African version of "China Threat Theory" and claimed that China's human rights," and fosters its "corruption," "incapacity" and "environment degradation."

Neither do these false attacks fit the historical facts, nor do they fit the current Sino-Africa relations. Both China and Africa countries are developing countries. They share similar history of colonial invasion or rule. After the establishment of the new China and the independence of African countries, they again share common aspiration to develop economy and revitalize their nations. Sino-African economic and trade cooperation is completely based on equality, mutual benefit and win-win. It is normal economic and trade activity. China's development will only provide more opportunities for Africa's development, such as expanding exports, increasing employment, personnel training,

improving people's livelihood, upgrading international status etc., China's assistance to Africa is without any political conditions, does not require any privilege, and strictly observes the principle of respecting the national sovereignty of African countries and not interfering with their domestic affairs.

The success of Beijing Summit in itself can serve as the best response to the malicious attack and ignorant misunderstanding to China. Sino-African cooperation, as one part of South-South cooperation, is transparent, open and non-exclusive. It is not targeted against or repels any third party, will not affect the cooperation of China and Africa with any third party, and will not hurt or jeopardize the interests of any third party. On the contrary, China and Africa will make contribution to promoting international cooperation as well as world peace and development.



## **IV. DEFENSE PERSONNEL COSTS**

Defense personnel costs were discussed at the first IDA-CIISS workshop in April, 2006 (see IDA Document D-3161). It was agreed to continue this discussion during the second workshop with greater emphasis on the costs of veterans.

The second day of the June 2007 workshop consisted of two sessions and a speech by General Gong Xianfu. In the first session, session 4, both sides gave presentations that briefly described total defense costs and then identified the portion of those costs that are spent on personnel. In session 5, both sides provided discussions of the costs of veterans. The speech by General Gong Xianfu was attended by about sixty Research Staff Members from IDA and CNAC.

### **A. SESSION 4: PERSONNEL PORTION OF TOTAL DEFENSE COSTS**

Mr. Horowitz of IDA expanded on his earlier presentation on defense personnel costs to clearly identify the portion that supports veterans, after which General Gong Xianfu described the personnel portion of Chinese defense costs.

#### **1. “U.S. Military Personnel Costs: Current Costs and Deferred Compensation” by Stanley Horowitz, IDA**

This material doesn’t have the broad geopolitical sweep of earlier presentations in the workshop, but it raises important issues of how to manage the compensation of personnel in a modern military. When I talked to you last year, I focused on quantifying the totality of expenditures related to personnel in the U.S. military. Today I will revisit that subject, but my emphasis will be on that portion of personnel costs that military personnel receive after they leave the military.

I will address three ways that costs can be characterized. First, are they direct or indirect? By direct I mean that payments go straight to personnel pretty much according to payment schedules that are explicitly defined. Indirect costs are for overhead expenses that cannot be associated with individuals beforehand.

Second, are the expenditures in the Defense Department budget or elsewhere? Quite a substantial fraction of what might be termed defense-related spending is outside the DOD budget, and both Dr. Hunter and I will address it.

Finally, are the expenditures current or deferred? Do they go to people while they are serving, or to veterans, individuals whose service has ended?

Let us start with direct costs. Table 3 shows the allocation scheme for basic pay, the largest element of direct military personnel costs. It covers enlisted personnel and officers, as well as warrant officers, who are highly experienced enlisted personnel in some technical fields, including Army helicopter pilots.

Basic pay varies with rank (also called pay grade) and the length of time served. It does not vary with occupation, geographic location, or the degree of danger faced. It is the only part of compensation relevant to the calculation of retirement benefits.

The table shows basic pay in dollars per month.

Pay is set to be competitive with the private sector. In general, we strive to set pay to be near the 70th percentile of people with similar education and experience in the private sector.

Fairly junior enlisted personnel make in the range of \$2,000 per month. Senior enlisted personnel make over \$4,000 per month. A colonel with over twenty years of experience makes roughly \$9000 per month.

The Basic Allowance for Housing (BAH) is the second largest element of direct personnel costs. BAH varies by pay grade and geographic area. Table 4 shows BAH levels for various locations in the states of North Dakota and New York.

Notice that there is substantial variation even within a state, since housing costs can be very different. The BAH in Rome, NY is often less than half that in New York City. Note that for junior enlisted personnel (up to pay grade E-4) the BAH in New York City is greater than their basic pay.

The basic allowance for housing is not taxable.

As an example, Table 5 shows that there are extremely large targeted pays officers who are health professionals, plus more for agreeing to extend their stay in the military. Incentive pay for medical officers depends on their specialty. In addition to the variable special pay that all medical officers get, some specialists who are very highly paid in the civilian sector get much more. For example, anesthesiologists and neurosurgeons get an additional \$36,000 per year.

Table 3. Basic Pay Table (Dollars per Month)

EFFECTIVE 1 APRIL 2007																											
PAY GRADE	<2	2	3	4	6	8	10	12	14	16	18	20	22	24	26	28	30	32	34	36	38	40					
COMMISSIONED OFFICERS																											
O-10	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	13659.00	13725.90	14011.20	14506.60	14506.60	15234.00	15234.00	15995.70	15995.70	16795.50	16795.50					
O-9	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	11946.60	12118.50	12367.20	12801.30	12801.30	13441.50	13441.50	14113.50	14113.50	14819.10	14819.10					
O-8	8453.10	8729.70	8913.60	8954.90	9194.10	9577.20	9666.30	10030.20	10134.30	10447.80	10900.80	11319.00	11599.30	11599.30	11599.30	11599.30	11888.40	11888.40	12185.70	12185.70	12185.70	12185.70					
O-7	7023.90	7350.00	7501.20	7621.20	7838.40	8052.90	8301.30	8548.80	8797.20	9577.20	10236.00	10236.00	10236.00	10236.00	10236.00	10236.00	10493.70	10493.70	10493.70	10493.70	10493.70	10493.70					
O-6	5206.20	5719.20	6094.50	6094.50	6117.60	6380.10	6414.60	6414.60	6779.10	7423.80	7802.10	8180.10	8395.20	8613.00	9036.70	9036.70	9216.30	9216.30	9216.30	9216.30	9216.30	9216.30					
O-5	4339.80	4888.80	5227.50	5291.10	5502.00	5628.60	5905.40	6110.10	6373.20	6776.40	6968.10	7158.00	7373.10	7373.10	7373.10	7373.10	7373.10	7373.10	7373.10	7373.10	7373.10						
O-4	3744.60	4334.70	4623.90	4688.40	4956.90	5244.60	5602.80	5892.40	6076.20	6187.50	6252.30	6252.30	6252.30	6252.30	6252.30	6252.30	6252.30	6252.30	6252.30	6252.30	6252.30						
O-3	3292.20	3732.30	4028.40	4392.00	4602.00	4833.00	4982.70	5228.40	5355.90	5355.90	5355.90	5355.90	5355.90	5355.90	5355.90	5355.90	5355.90	5355.90	5355.90	5355.90	5355.90						
O-2	2844.30	3239.70	3731.40	3857.40	3936.60	3936.60	3936.60	3936.60	3936.60	3936.60	3936.60	3936.60	3936.60	3936.60	3936.60	3936.60	3936.60	3936.60	3936.60	3936.60	3936.60						
O-1	2469.30	2569.80	3106.50	3106.50	3106.50	3106.50	3106.50	3106.50	3106.50	3106.50	3106.50	3106.50	3106.50	3106.50	3106.50	3106.50	3106.50	3106.50	3106.50	3106.50	3106.50						
COMMISSIONED OFFICERS WITH OVER 4 YEARS OF ACTIVE DUTY SERVICE AS AN ENLISTED MEMBER OR WARRANT OFFICER																											
O-1E	0.00	0.00	0.00	4392.00	4602.00	4833.00	4982.70	5228.40	5355.90	5355.90	5355.90	5355.90	5355.90	5355.90	5355.90	5355.90	5355.90	5355.90	5355.90	5355.90	5355.90						
O-2E	0.00	0.00	0.00	3857.40	3936.60	4062.00	4273.50	4437.00	4558.80	4558.80	4558.80	4558.80	4558.80	4558.80	4558.80	4558.80	4558.80	4558.80	4558.80	4558.80	4558.80						
O-1E	0.00	0.00	0.00	3106.50	3317.70	3440.10	3565.50	3688.80	3857.40	3857.40	3857.40	3857.40	3857.40	3857.40	3857.40	3857.40	3857.40	3857.40	3857.40	3857.40	3857.40						
WARRANT OFFICERS																											
W-6	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	6049.50	6356.40	6585.00	6838.20	6838.20	7180.20	7180.20	7539.30	7539.30	7916.40	7916.40					
W-5	3402.00	3660.00	3766.00	3868.50	4048.40	4222.20	4400.70	4669.20	4904.40	5128.20	5310.90	5489.70	5752.20	5967.60	6213.60	6213.60	6337.80	6337.80	6337.80	6337.80	6337.80						
W-3	3106.80	3236.40	3369.00	3412.80	3552.00	3625.90	4110.90	4245.30	4400.40	4560.30	4847.70	5042.40	5159.50	5282.10	5450.10	5450.10	5450.10	5450.10	5450.10	5450.10	5450.10						
W-2	2749.20	3009.30	3089.40	3144.60	3322.80	3500.00	3737.10	3872.40	4037.70	4165.70	4284.00	4423.80	4515.90	4589.40	4589.40	4589.40	4589.40	4589.40	4589.40	4589.40	4589.40						
W-1	2413.20	2572.40	2742.90	2890.50	3055.10	3322.20	3442.20	3610.20	3775.50	3905.10	4024.50	4170.00	4170.00	4170.00	4170.00	4170.00	4170.00	4170.00	4170.00	4170.00	4170.00						
ENLISTED MEMBERS																											
E-9	0.00	0.00	0.00	0.00	0.00	0.00	4110.60	4203.90	4321.20	4489.50	4698.40	4821.60	5010.30	5209.20	5512.80	5512.80	5788.50	5788.50	6078.00	6078.00	6381.90	6381.90					
E-8	0.00	0.00	0.00	0.00	0.00	0.00	3364.80	3513.90	3605.00	3716.40	3835.80	4051.80	4161.30	4347.30	4450.50	4704.90	4799.10	4799.10	4799.10	4799.10	4799.10						
E-7	2339.10	2553.00	2650.80	2780.70	2891.50	3055.20	3152.70	3326.70	3471.00	3569.70	3674.40	3715.50	3852.00	3925.20	4204.20	4204.20	4204.20	4204.20	4204.20	4204.20	4204.20						
E-6	2023.20	2226.00	2324.40	2419.80	2519.40	2744.10	2831.40	3000.00	3051.90	3089.70	3133.50	3133.50	3133.50	3133.50	3133.50	3133.50	3133.50	3133.50	3133.50	3133.50	3133.50						
E-5	1854.00	1977.90	2073.30	2171.40	2323.80	2483.70	2613.90	2630.10	2630.10	2630.10	2630.10	2630.10	2630.10	2630.10	2630.10	2630.10	2630.10	2630.10	2630.10	2630.10	2630.10						
E-4	1699.50	1786.50	1883.10	1978.50	2062.80	2062.80	2062.80	2062.80	2062.80	2062.80	2062.80	2062.80	2062.80	2062.80	2062.80	2062.80	2062.80	2062.80	2062.80	2062.80	2062.80						
E-3	1534.20	1630.80	1729.20	1729.20	1729.20	1729.20	1729.20	1729.20	1729.20	1729.20	1729.20	1729.20	1729.20	1729.20	1729.20	1729.20	1729.20	1729.20	1729.20	1729.20	1729.20						
E-2	1458.90	1458.90	1458.90	1458.90	1458.90	1458.90	1458.90	1458.90	1458.90	1458.90	1458.90	1458.90	1458.90	1458.90	1458.90	1458.90	1458.90	1458.90	1458.90	1458.90	1458.90						
E-1 >4 mon	1301.40	1301.40	1301.40	1301.40	1301.40	1301.40	1301.40	1301.40	1301.40	1301.40	1301.40	1301.40	1301.40	1301.40	1301.40	1301.40	1301.40	1301.40	1301.40	1301.40	1301.40						
E-1 <4 mon	1203.90	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00						
C/S	17972.10						M/S	6642.60																			
NOTE-BASIC PAY FOR O7-O10 IS LIMITED TO \$14,000.10																											
LEVEL II OF THE EXECUTIVE SCHEDULE																											
NOTE-BASIC PAY FOR O6 AND BELOW IS LIMITED TO \$11,349.60																											
LEVEL V OF THE EXECUTIVE SCHEDULE																											

FY2007, 2.2% Pay Raise Increase, Public Law No.109-364 National Defense Auth Act, signed into law on October 17, 2006.

FY2007, 2.2% Pay Rate Increase. Public Law No.109-364 National Defense Auth Act, signed into law on October 17, 2006.

**Table 4. Selected Housing Allowances (with Dependents, Dollars per Month)**

2007 BAH Rates - WITH DEPENDENTS																									
	MHA	E01	E02	E03	E04	E05	E06	E07	E08	E09	W01	W02	W03	W04	W05	O01E	O02E	O03E	O01	O02	O03	O04	O05	O06	O07
North Dakota	ND188	BISMARCK, ND																							
		741	741	741	741	814	895	915	937	972	895	924	950	980	1014	919	946	985	823	893	949	1029	1085	1094	1107
	ND189	FARGO, ND																							
		713	713	713	713	832	1151	1191	1234	1311	1152	1208	1261	1331	1412	1199	1253	1343	868	1144	1259	1446	1577	1590	1609
	ND190	GRAND FORKS, ND																							
New York		730	730	730	730	828	948	1023	1106	1202	949	1057	1157	1219	1291	1039	1142	1230	842	945	1153	1322	1439	1451	1466
	ND191	MINOT AFB, ND																							
		666	666	666	666	738	876	908	944	995	877	923	966	1007	1054	915	960	1014	754	873	964	1074	1150	1159	1173
	NY215	BALLSTON SPA/ALBANY, NY																							
		1055	1055	1055	1055	1144	1363	1397	1435	1514	1364	1413	1459	1536	1624	1405	1452	1549	1169	1358	1457	1661	1805	1820	1841
	NY216	BUFFALO, NY																							
		890	890	890	890	974	1150	1210	1275	1356	1151	1236	1316	1371	1434	1223	1304	1381	994	1146	1313	1461	1564	1577	1595
	NY217	WEST POINT, NY																							
		1405	1405	1405	1405	1546	2055	2119	2190	2309	2056	2148	2234	2337	2457	2133	2221	2356	1604	2043	2231	2507	2701	2723	2755
	NY218	LONG ISLAND, NY																							
		1992	1992	1992	1992	2127	2436	2527	2626	2753	2438	2567	2688	2778	2882	2546	2670	2794	2162	2429	2683	2926	3095	3121	3157
	NY219	NEW YORK CITY, NY																							
		1874	1874	1874	1874	1901	2051	2116	2187	2290	2052	2145	2231	2313	2407	2130	2218	2327	1918	2048	2228	2447	2600	2621	2652
	NY221	ROCHESTER, NY																							
		963	963	963	963	1072	1134	1205	1283	1388	1135	1237	1331	1410	1501	1220	1317	1424	1079	1133	1327	1539	1687	1701	1721
	NY222	ROME/GRIFFISS AFB, NY																							
		770	770	770	770	855	960	1028	1102	1170	961	1058	1148	1178	1213	1042	1134	1183	867	958	1145	1228	1284	1295	1310
	NY223	SENECA ARMY DEP/SYRACUSE, NY																							
		852	852	852	852	929	1007	1082	1165	1270	1008	1116	1216	1291	1379	1098	1201	1305	938	1005	1212	1415	1557	1570	1588
	NY225	FT. DRUM/WATERTOWN, NY																							
		867	867	867	867	966	1174	1235	1303	1372	1175	1263	1345	1383	1426	1249	1333	1389	990	1169	1342	1444	1515	1527	1545
	NY226	BINGHAMTON/ITHACA, NY																							
		1023	1023	1023	1023	1180	1374	1410	1450	1544	1375	1427	1475	1570	1679	1418	1468	1587	1202	1370	1473	1726	1904	1920	1942
	NY349	WESTCHESTER COUNTY, NY																							
		1825	1825	1825	1825	1898	2311	2448	2598	2731	2313	2509	2691	2746	2810	2477	2664	2756	1945	2302	2684	2837	2940	2954	2999
	NY413	STATEN ISLAND, NY																							
		1540	1540	1540	1540	1724	1923	2020	2127	2260	1925	2064	2194	2285	2390	2041	2175	2301	1747	1918	2189	2434	2605	2626	2657

Because civilian pay varies by occupation, military pay must also. If it didn't we wither would not keep people in high-skill occupations in the military or we would have to vastly over-pay other people.



**Table 5. Medical Special Pays**

SPECIAL PAYS FOR HEALTH PROFESSIONAL OFFICERS (note)									
Variable Special Pay (Medical Officers)									
Pay Grade	Under 3	3 But Less Than 6	6 But Less Than 8	8 But Less Than 10	10 But Less Than 12	12 But Less Than 14	14 But Less Than 18	18 But Less Than 22	22 and Over
Intern	100.00								
Thru O-6 (not an intern)		416.67	1,000.00	958.33	916.67	833.33	750.00	666.67	583.33
Above O-6	583.33	For other pays or specific requirements for the pay cited in this table, go to the web at: <a href="http://www.dtic.mil/comptroller/fmr/07a/index.html">http://www.dtic.mil/comptroller/fmr/07a/index.html</a>							
Variable Special Pay (VSP) (Dental Officers)									
Pay Grade	Under 3	3 But Less Than 6	6 But Less Than 8	8 But Less Than 12	12 But Less Than 14	14 But Less Than 18	18 & Over		
Intern	250.00								
Thru O-6 (not an intern)		583.33	583.33	1,000.00	833.33	750.00	666.67		
Above O-6	583.33								
Board Certified Pay Special Pay (Medical and Dental Officers)					Additional Special Pay (ASP) (Dental Officers)				
Pay Grade	Under 10	10 But Less Than 12	12 But Less Than 14	14 But Less Than 18	18 & Over	Pay Grade	Under 3	3 But Less Than 10	10 & Over
All Grades	208.33	291.67	333.33	416.67	500.00	All Grades	4,000.00	6,000.00	15,000.00
Incentive Special Pay (Medical Officers)									
Specialty	Annual Amt	Specialty	Annual Amt	Specialty	Annual Amt	Specialty	Annual Amt		
Anesthesiology	\$36,000.00	Internal medicine	14,000.00	Otolaryngology	30,000.00	Subspecialty Category I	36,000.00		
Dermatology	18,000.00	Neurology	14,000.00	Pathology	16,000.00	Subspecialty Category II	28,000.00		
Emergency medicine	26,000.00	Neurosurgery	36,000.00	Pediatrics	12,000.00	Subspecialty Category III	23,000.00		
Family practice	13,000.00	OB/GYN	31,000.00	Prev/Occ/Phys Med & Aero Med	13,000.00	Subspecialty Category IV	14,000.00		
Gastroenterology	26,000.00	Ophthalmology	28,000.00	Psychiatry	15,000.00	Urology	28,000.00		
General surgery	29,000.00	Orthopedics	36,000.00	Radiology	36,000.00				
Multiyear Special Pay (Medical Officers)									
	Level 1		Level 2		Level 3		Level 3		
4 Year Agreement	14,000.00		10,000.00		8,000.00		0		
3 Year Agreement	13,000.00		9,000.00		7,000.00		0		
2 Year Agreement	12,000.00		8,000.00		6,000.00		0		

Table 6 shows all the current direct costs of military personnel. Reservists who are not on active duty do not get most allowances and special pays. Here all allowances and special pays have been associated with active duty personnel, slightly overstating their costs.

**Table 6. Current Direct Costs of Military Personnel (FY 2007, \$B)**

BASIC PAY	46.0
BASIC ALLOWANCE FOR HOUSING	13.6
ALLOWANCES FOR SUBSISTENCE	5.4
INCENTIVE PAYS	0.9
SPECIAL PAYS	3.0
ALLOWANCES	2.5
SEPARATION PAY	0.9
PERMANENT CHANGE OF STATION	3.4
OTHER MILITARY PERSONNEL COSTS	1.4
<b>TOTAL ACTIVE DUTY PERSONNEL</b>	<b>77.1</b>
<b>RESERVISTS</b>	<b>14.9</b>
<b>TOTAL CURRENT DIRECT COST</b>	<b>92.0</b>

The table does not include funds provided by the supplemental appropriation for FY 2007. Also, some of these costs are related to deferred compensation to others, a point we will return to later.

Table 7 addresses indirect costs. Most of the categories at the top of the table—medical benefits, dependants' schools, and commissaries for example—are really forms of compensation. Only 56% of the costs of medical care and half the costs of commissaries are associated with serving military personnel/. Retirees are entitled to use, and do continue to use, these resources.

**Table 7. Current Indirect Costs of Military Personnel (FY 2007, \$B)**

	<b>Total</b>
Medical Support	16.0
Schools for Dependents	1.6
Commissaries	0.6
Family Housing	4.6
Other Dependent Support	0.8
Educational Impact Aid	1.3
Total Personnel Support	24.9
Personnel Administration*	8.3
Military Education and Training	33.6
Total Current Indirect Cost	66.8

The costs of administering the personnel system and of educating people in their required military skills are not compensation, but they are costs that are a consequence of having serving military personnel.

Now we will address deferred costs, costs associated with payments to veterans. All former service members are veterans, but not all are retirees. Only veterans who have served at least 20 years are eligible for retirement pay and are called retirees.

Many costs are associated with military personnel after they leave the Services. As noted earlier, retirees and their families continue to be eligible for medical care through the Department of Defense and to use military commissaries. DOD also pays Social Security costs, and some retirement costs

Additional costs are borne by other government departments. Most of these are paid by the Department of Veterans Affairs that has an extensive medical care establishment and also pays disability compensation to veterans suffering from injuries or diseases first incurred during military service. Some retirement costs are covered by the Treasury

Department. The Department of Labor pays for employment and training assistance for veterans.

Deferred costs are funded in three ways. Some are direct funded. In this case money is placed in the budget in the year in which benefits are provided. Examples of direct funding are most medical care, educational benefits, and military retirement for individuals who serviced before 1984.

Some deferred costs are accrual funded. In this case money is placed in a fund now to pay benefits later. Military retirement for individuals now in service is accrual funded.

Finally, some deferred costs are funded through withdrawals from accumulated funds. In this case money is taken out of a fund to pay benefits now. Military retirement costs associated with service since 1984 are funded in this way.

Table 8 presents a comprehensive view of deferred compensation for U.S. military personnel. There is \$35 billion of deferred compensation in the DOD budget, almost 40% of what is spent on current compensation.

**Table 8. Deferred Costs of Military Personnel (FY 2007, \$B)**

Medical Costs for Retirees under 65 and Their Families*	12.6
Medical Costs for Retirees over 65 and Their Families	8.1
Commissaries	0.6
Retired Pay in DoD Budget	3.8
Social Security	1.1
Education Benefits	8.3
<b>Total in DoD Budget</b>	<b>34.5</b>
Department of Veterans Affairs -- Total Budget	76.9
Department of Labor -- Veterans Employment and Training	0.2
Department of the Treasury -- Funded Retirement Liabilities	30.1
Department of the Treasury -- Unfunded Retirement Liabilities	9.9
<b>Total Outside DoD Budget</b>	<b>117.1</b>
<b>Total Deferred Costs*</b>	<b>151.6</b>

More important, there is \$117 billion in deferred compensation financed outside the budget of the Department of Defense. Most of this is in the Department of Veterans Affairs.

Before getting to the conclusion of the paper, let us consider a technical point. Some of the direct costs displayed earlier support indirect costs and deferred costs. Thus, they can be considered to be in these categories themselves. The direct compensation of

military medical personnel is an example. The portion of their direct compensation supporting active duty personnel and their families is, in a sense, an indirect personnel cost. The portion of their direct compensation supporting retirees and their families is, in a sense, a deferred cost.

Definitionally, such costs could be categorized according to their direct rationale (e.g., direct costs of military medical professionals are direct costs) or according to their ultimate rationale (e.g., direct costs of military medical professionals are split between indirect costs and deferred costs). In categorizing total personnel-related spending we have to make sure that these costs are only counted once and that their treatment is clear.

The costs that could be placed in either indirect or deferred activities categories are as follows:

- Military medical personnel
  - \$4.2 billion indirect
  - \$3.3 billion deferred
- Personnel administrators
  - \$5.3 billion indirect
- Training personnel
  - \$16.9 billion indirect

Table 9 presents total personnel-related costs using both possible categorizations of the costs shown above. The main points are that, under either categorization, deferred personnel costs are greater than all current costs and that they are substantially greater than current direct costs.

**Table 9. Current and Deferred Personnel-Related Costs (FY 2007, \$B)**

	Support Personnel in Direct Costs		Support Personnel in Supported Category
Current Direct Costs	92.0	Current Direct Costs	62.3
Current Indirect Costs	35.8	Current Indirect Costs	66.8
Deferred Costs	152.9	Deferred Costs	151.6
Total	280.7	Total	280.7

This leads to the real resource-allocation question: Does this make sense? One can easily argue that it does not. The Department of Defense has a far larger piece of its personnel-related budget in deferred compensation than any private, market-driven employer does. Research shows that military personnel value current compensation much

more highly than deferred compensation. The U.S. military compensation system would likely be more efficient if less of its cost was in the form of deferred compensation.

Designing an efficient military compensation system is a challenge shared by the United States and China. Despite many years of using analytic tools to shape compensation, the U.S. still probably gets some important aspects of compensation policy wrong. The PLA faces many of the same issues we face in designing a military compensation system. We should be able to learn from each other.

## **2. “Personnel Portion of Chinese Defense Costs” by Major General Gong Xianfu, CISS**

*Before delivering his prepared presentation (a translation of which follows below), General Gong Xianfu provided the following facts: Before the 2006 salary increase, a PLA colonel made 2,000 RMB (U.S.D 250) per month. By comparison, a U.S. military colonel makes about U.S.D 9,000 (72,000 RMB) per month. Following the salary increase, a PLA colonel makes 4,200 RMB (U.S.D 525) per month. To feed an enlisted person in the mess hall costs the PLA 400 RMB (U.S.D 50) per month.*

China’s national defense expenditures can be divided into the following three major categories:

- Personnel
- Training<sup>4</sup>
- Equipment

### **a. Personnel Costs**

The PLA has both direct and indirect personnel costs, which is similar to that of the U.S. military. These personnel costs include the following:

- Salaries (officers, civilian cadres, conscripts, and employees)
- Subsidies (grassroots officers’ billet subsidies, conscripts’ proficiency pay, student allowances, time in service subsidies for instructors and medics, and physical fitness subsidies and awards)<sup>5</sup>
- Supplemental pay (professional type and regional type supplemental pay)

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<sup>4</sup> The actual Chinese term used was *xunlian weichi*, which translates to “training maintenance.”

<sup>5</sup> Note: The PLA considers units at the battalion level and below as grassroots units.

- Food (conscripts and NCOs, officers, civilian cadres food price adjustment allowance<sup>6</sup>)
- Clothing and bedding
- Medical (military personnel and their direct dependents)
- Welfare, insurance (compensation to families of those hurt or killed, welfare costs, military personnel life insurance, officer and civilian cadre housing public reserve funds and allowances, retired military personnel medical insurance)
- Pensions (all personnel who joined the PLA prior to 1 October 1949 and some retired officers)
- Accommodation Costs (one-time expense for retirement, demobilization, transition to the civilian sector)
- Education (education of military children, including military schools, kindergartens, etc.)
- Female military personnel health costs
- Supporting military spouses accompanying units during periods when they are not yet employed.

MG Gong stated that the PLA now puts additional money in a housing fund pool for each active duty officer. [Note: Based on other conversations, this is a fairly new program.] Upon retiring, the officer can use the money to rent or purchase off-post subsidized housing that was built by the military.

Some officers receive 100% of their base salary as retirement pay. Retired officers who joined the PLA before 1949 (*lixiu*) receive better benefits than those retired officers who joined the PLA after 1949 (*tuixiu*). The first group receives a full 100% of their original pay, and they all live in a retirement facility (*ganxiusuo*). The second group must serve for 35 years to receive 100% of their active duty base salary.

## **b. Unit Budgets**

MG Gong also noted that the budget for units is divided into two parts as follows:

- Standard expenses (*biozhun jingfei*), which includes personnel, maintenance, and facilities

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<sup>6</sup> Note: Based on other discussions, most officers below the level of *jun* leader are required to eat in the mess hall Monday through Friday, so the subsidy helps pay for the other meals.

- Development expenses (*fazhan jingfei*), which consists of new weapons and equipment, and new barracks. This is considered a flexible budget.

Prior to 1978, each unit based its budget request on the previous year and added a small increase, regardless of whether it needed it or not.

The tension in the Taiwan Strait during the 10<sup>th</sup> Five-Year Plan (2001-2005) led China to increase the military's budget. At the same time, the Party and the CMC told the military to start getting ready for a conflict. As a result, the funding for research and weapons acquisition increased. In addition, special item budget(s) increased dramatically. R&D, equipment, and logistics requirements went up considerably.

### **c. The Defense Budget's Three Components**

In the last few years, personnel costs, training costs, and equipment costs have each accounted for about one-third of China's national defense budget. For example:

- In 2003, China's national defense budget was 190.787 billion RMB (U.S.D 23.848 billion)
  - Personnel costs accounted for 62.006 billion RMB (U.S.D 7.75 billion)
  - Training costs accounted for 64.104 billion RMB (U.S.D 8.013 billion)
  - 64.677 billion RMB (U.S.D 8.085 billion) of which was spent on equipment.
  - Each component comprised 32.5%, 33.6%, and 33.9%, respectively, of the 2003 national defense budget.
- In 2005, the national defense budget was 247.494 billion RMB (U.S.D 30.937 billion)
  - Personnel costs accounted for 83.159 billion RMB (U.S.D 10.395 billion)
  - Training costs accounted for 80.683 billion RMB (U.S.D 10.085 billion)
  - Equipment costs accounted for 83.654 billion RMB (U.S.D 10.457 billion)
  - Each component comprised 33.6%, 32.6%, and 33.8%, respectively, of the 2005 budget.

Based on these figures, there is only one percentage point difference more or less between the overall proportion for each of these three categories of expenditure in the national defense budget. The three categories of expenditure described above and their relative proportion of the national defense budget formed naturally over the course of the last 20 years. They are not the result of any man-made regulation.

#### **d. The Budgetary Process**

The procedure for working out China's national defense costs is as follows:

- The process begins when officers responsible for the budget in each level in the chain-of-command conduct discussions of budgetary programs and cost requirement calculations and then sends them to higher headquarters.
- The General Logistics Department (GLD) analyzes and researches the annual budgetary requirements put forth by each of the four General Department's subordinate departments, each Military Region, and each service and branch.
- The GLD then compiles the national defense budget, which, after receiving approval from the Central Military Commission (CMC), is presented to the Ministry of Finance.
- Based on the Central Government's long-term financial plan and estimated annual financial income, the Ministry of Finance discusses the proposed expense request plan with the GLD, and integrates it into the central finance budget draft.
- After receiving approval from the State Council, the budget proposal is put before the National People's Congress for approval.
- The Ministry of Finance then gives an official reply to the GLD based on the central budget approved by the National People's Congress.
- The GLD implements the nationally approved national defense budget throughout all levels of units according to procedures stipulated by regulation.

#### **e. Historical Changes in the Budget**

In the 1950s, because of the Korean War, China purchased a large amount of weapons and ammunition from the former Soviet Union. To a great extent, the Soviet Union gave China preferential treatment in terms of price, payment, etc; however, equipment costs still accounted for a large portion of overall national defense expenditures. After the end of the Korean War, the proportion of money spent on equipment in the national defense budget declined sharply.

From then until 1985, the size of China's military was immense -- surpassing 5 million personnel at its largest. In addition, in 1956, the military changed from a system in which everything was given to personnel (*gongjizhi*) to a salary system (*xinjinzhi*), and the proportion of personnel costs in the overall national defense budget was relatively large.



In 1985, China decided to reduce the size of its military by one million. By 1987, the total number of personnel had decreased from 4.238 million to 3.235 million. After this, there was another force reduction. By 1990, the total number of personnel had been cut down to 3.199 million. In 1997, China decided to cut the size of its military by 500,000 personnel within three years, downsizing the military to the level of 2.5 million personnel. In 2003, China decided to cut personnel by another 200,000, downsizing the military to the present 2.3 million.

During this process, China made some noticeable progress in the standardization of its military. The salaries and benefits for military personnel also gradually improved. In the annual national defense costs reported to higher headquarters by each department, the GLD finds that personnel costs, training costs, and equipment costs each continue to account for about one-third of national defense expenditures. Consequently, this regular pattern of results then became part of the standard criterion for allocating the national defense budget in recent years. Thus it can be seen that these proportions are determined by real requirements.

Of course every year, the percentage allocated to each of these three categories of expenditure within the national defense budget is not fixed, but rather changes according to that year's real requirements and plans. For example, in the 2007 national defense budget, personnel costs will be a bit higher because, beginning in the second half of 2006, the military pay increase was relatively high, increasing by nearly 30 billion RMB (U.S.D 3.75 billion). The PLA will celebrate the 80<sup>th</sup> anniversary of the founding of the People's Liberation Army [i.e., the Red Army] in August 2007. At that time, the PLA will change its uniforms and the entire military will be issued new uniforms, which will cost about 8 billion–10 billion RMB (U.S.D 1 billion–1.25 billion).

**B. “THE ROLE OF THE PLA IN CHINA’S FUTURE SECURITY POLICY” BY  
MAJOR GENERAL GONG XIANFU, CIISS**

*At the request of Admiral Blair, General Gong Xianfu gave a speech in the IDA auditorium that was attended by about 60 research staff members from IDA and CNAC.*

Thank you for giving me this opportunity to make a presentation on the “Role of the PLA in China’s Future Security Policy.” I must say you have given me a very hard job to do, for it is not within the areas of my studies. In order to make this presentation, I have to beat my brains and to do some homework. I hope that I could meet some of your expectations through my efforts. May I guess, by asking me to make a presentation on this topic, you would have something in your mind that the PLA (People’s Liberation

Army) is now playing less role in China's security policy than it used to, and its role in this respect will further decrease in the future. The evidence is that at present, no person from the PLA is in the standing committee of the political bureau of the central committee of the Chinese Communist Party, which is quite unusual compared with the past. It seems that the PLA may be further put into the shade in formulation China's security policy in the future. Is it true or not?

My answer to this question is both "yes" and "no". To have better understanding of the issue, we must look into these related factors as the historical evolution, the nature and role of the PLA spelled out by the Communist Party of China, the changing security environment and the power structure in China today.

You all may know, the predecessor of the PLA was the "Red Army" which was first created by the CPC in 1927. In that year, the Nan Chang armed uprising and the "autumn harvest armed uprising" against the KMT regime took place almost at the same time, which were led respectively by Zhou Enlai and Mao Zhetong, the two most important leaders of the CPC. Mao was the founder and first president of the new Republic and Zhou was the premier. After the breakout of the Anti-Japanese War, the CPC and KMT decided to coordinate their fight against the Japanese, so the armed forces led by the CPC were reorganized into the Eighth Route Army and the New Fourth Army. After the victory of the Anti-Japanese War, the CAPC tried to make peace with KMT but failed and was compelled to launch the Liberation War against the Chang Kaishik regime. Thus, its armed forces were renamed as PLA and this name has never been changed since then. After the founding of the People's Republic of China in 1949, the Chinese government made a decision that August 1<sup>st</sup> of 1927 when the Nam Chang uprising started should be chosen as the founding date of the PLA. This year, the PLA will celebrate its 80<sup>th</sup> anniversary of its founding.

In its historical evolution, the PLA has formed its own features, mainly as follows. First, the Party commands the gun. That means the PLA was founded by the CPC and has always been under the command and control of the CPC. This principle will never change. The late Chairman Mao Zhetong had a famous remark, "the political power comes out of the barrel of the gun." So, as its valuable experience learned from the long-time armed struggle, the CPC has persisted in this fundamental principle. All the members of the PLA know that the PLA must be put under the absolute leadership of the Party at any time and under any circumstances. In another word, the PLA must absolutely obey the orders and command of the CPC. No one in the PLA is allowed to waver in this principle.

Second, because of that, the missions of the PLA are decided by the CPC in accordance with its tasks and objectives. During the different historical periods, the CPC has different tasks and objectives. Therefore, the PLA also has different missions. In the period before the founding of the new Republic, the main mission of the PLA was to liberate the entire country from the rule of the Chang Kaishik regime and seize the political power of China under the leadership of the CPC. Since the founding of the new Republic, the missions of the PLA have been to consolidate the ruling position of the CPC, to safeguard national sovereignty and territorial integrity, and to ensure national development. But due to the different security environment, the emphasis of these missions is not the same. For example, during the period from the founding of the new Republic to early 1960s, the PLA was mainly engaged in consolidating the political power of the CPC, fighting the Korean War, guarding against possible aggression from foreign countries and carrying out military struggle against Chang Kaishik clique. During the period from early 1960s to the middle of the 1980s, China was faced with border clashes successively with India, the Soviet Union and Viet Nam, in the meantime, had been engaged in making military preparations for possible all-out war with the Soviet Union. Then from the middle of the 1980s, China's security environment has undergone great changes. The CPC, led by the late leader Deng Ziaopin, seized the opportunity and timely realized major strategic shift to make economic construction as the core task of the party and the nation. At the same time, in correspondence with this shift, the CPC also developed a comprehensive security concept, which emphasizes that the national security includes not only military security, but also political, economic, science and technological, cultural and social security, not only the traditional security but also non-traditional security. The CPC believes that with the deepening of globalization, the economic security has become more and more prominent. Therefore, the economic development has become the first priority of the Party and the nation. The building of the PLA should be subordinated to economic construction. Under the new circumstances, the missions of the PLA laid down by the Party are to uphold national security and unity, and to ensure the interests of national development. This includes guarding against and resisting aggression, defending against violation of China's territorial sea and air space, and borders, opposing and containing the separatist forces for "Taiwan Independence" and their activities, taking precautions against and cracking down on terrorism, separatism and extremism in all forms.

Third, in accordance with the principle that the PLA is under the absolute leadership of the CPC, China has a unique leadership system for the PLA, that is the

Central Military Commission (CMC) of the CPC exercises leadership over the PLA. The CMC Chairman has overall responsibility for its work. The CMC Chairman is usually the General Secretary of the CPC or the most powerful man of the Party, like Deng Xiaoping and Jiang Zheming, who stepped down from the post of the General Secretary of the Party, but still retained the chairmanship of the CMC for a couple of years. Besides the Chairman, the CMC consists of two or three vice chairmen and several other members. China's power structure in terms of military leadership allows of no one other than the members of the CMC involving in the command of the PLA. For example, only the General Secretary of the Party can make inspection tour of the PLA units, no one else from the standing committee of the political bureau of the CPC is allowed to do so. The CMC directs and exercises unified command of the PLA. It has the following powers: deciding on the military strategy and operational guidelines of the PLA, directing and administering the building of the PLA, formulation military regulations, issuing decisions and orders, deciding on the structure and organization of the PLA, appointing and removing members of the PLA, approving systems and development programs and plans for weaponry and equipment.

From the above analysis, we could come to some conclusions now. During the period from the founding of the new Republic up to 1985, the military affair had the overriding importance for the Party and the state, and the majority of the senior leaders of the Party and the government were the war veterans. Therefore, it is quite natural that the top leadership was composed of some persons of the PLA. Since 1985, great changes have taken place in China. Now, the leadership of the Party and the state has transited from the first generation to the fourth generation. All war veterans have faded away from the power center of the Party and the state. Economic development has become the first priority of the Party and the nation, and it will continue to be so for a long time to come unless something dramatic happens to disrupt it. So the role of the PLA in China's security in terms of overall security strategy has decreased and will remain so in the future. But on the other hand, the status and role of the PLA in terms of military security has not diminished. The PLA is dedicated to performing its historical missions in the new century, namely providing an important source of strength for consolidating the ruling position of the CPC, providing a solid security guarantee for national economic development and providing a strong strategic support for preserving national interests. Especially, the Chairman of the CMC is the Party's General Secretary who always pays great attention to loyalty and absolute obedience of its members. And the CMC is such a


powerful body that it will certainly increase its role in China's security policy whenever military security threat to the country looms larger.

That is my perspective on the role of the PLA in China's future security policy, which is solely my personal opinions and does not represent any official institutions. I hope you could understand why I have given the answer with "yes" and "no," because it depends on my different interpretations from the different angles.

## C. SESSION 5: VETERANS' COSTS

Session 5 was closely related to session 4, providing an expanded view of the costs of veterans in the United States and China. Dr. Hunter of IDA provided a comprehensive description of U.S. veterans' costs, and General Jiang Shiliang of CISS described Chinese veterans' costs.

### 1. Costs of U.S. Veterans, by Dr. David Hunter, IDA



**Department of Veterans Affairs**  
**(VA)**

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- The VA serves 24.4 million veterans
- Has a budget of \$75.8 B
- Has 235,978 employees
- Major Facilities
  - ◆ 154 VA hospitals and
  - ◆ 57 Regional offices

2

The Department of Veterans Affairs (VA) was formed in 1930. It's mission is to provide benefits and services to veterans and their families in a responsive, timely and compassionate manner in recognition of their service to the Nation. Today 235,978 employees of the VA serve over 24.4 million veterans with an annual budget of 75.8 billion dollars. Major facilities for the VA consist of 154 VA hospitals and 57 regional offices.

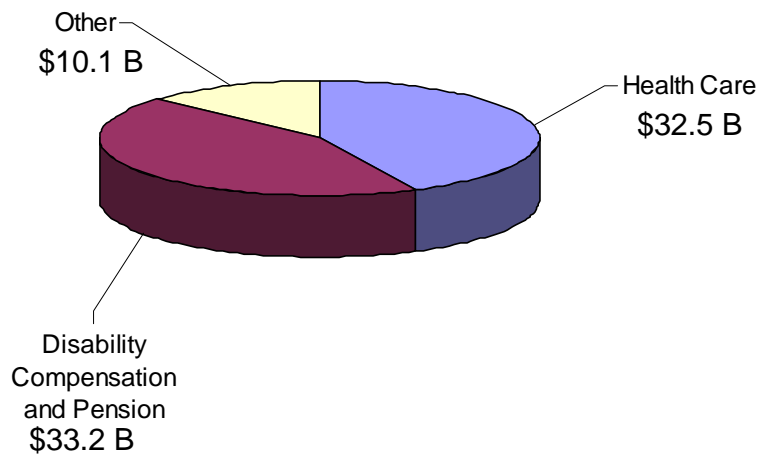
## Historical Cost of Veterans

	1930	Today
<b>Population of Living Veterans</b>	4.6 M	24.4 M
<b>VA Budget</b>	\$786 M	\$75.8 B
<b>VA Personnel</b>	31,500	235,978
<b>VA Medical Budget</b>	\$30 M	\$32.5 B
<b>Amount of Compensation and Pension Benefits Paid</b>	\$418 M	\$33.2 B
<b>Number of VA life insurance policies</b>	646,000	7.6 M

3

The Department of Veterans Affairs has grown tremendously since its inception in 1930. At its founding, there were 4.6 million veterans in the United States, while today there are 24.4 million. The VA budget has grown from 786 million dollars in 1930 to 75.8 billion dollars today. In 1930, the VA employed 31,500 people. Today that number is 235,978. One large portion of the VA budget, the medical budget, has grown from 30 million dollars in 1930 to 32.5 billion dollars today. Similarly, the amount of compensation and pension benefits paid has gone from 418 million dollars in 1930 to 33.2 billion dollars today. In addition, the VA subsidized 646,000 life insurance policies in 1930 while today that number is 7.6 million.

## Cost of Veterans in 2005



**Total Budget in 2005  
was \$75.8 Billion**

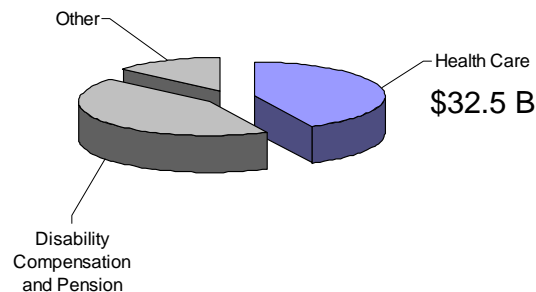
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The total budget for the VA in FY 2005 was \$75.8 billion dollars. This breaks down into three major categories. Health care comprises 32.5 million dollars of that budget. Disability compensation and pension benefits total 33.2 billion dollars while all other costs total 10.1 billion dollars.



## Veteran Health Care Costs

- Provided primary care, specialized care, and related medical services
- Helped 5,435,500 patients in FY05
- Accounts for 42.9% of the total VA budget
- The largest direct health care delivery system in the United States



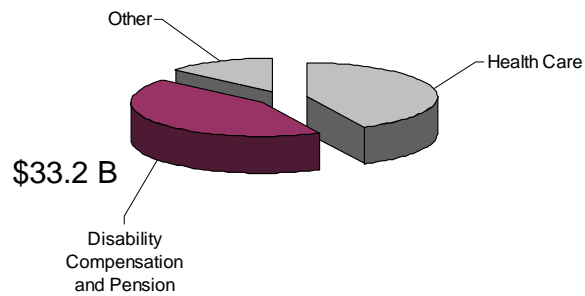
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Health care costs totaled 32.5 billion dollars in FY 2005, which is 42.9% of the total VA budget. This money is used to provide primary care, specialized care and related medical services to eligible veterans. Any veteran with active military service in the Army, Navy, Air Force, Marines or Coast Guard who was discharged under other than dishonorable conditions are eligible for health care benefits. In addition, Reservists and National Guard members who were called to active duty may be eligible.

In FY 2005, the VA health care system saw 5,435,500 unique patients, making it the largest direct health care delivery system in the United States.

## Disability Compensation and Pension

- **Disability Compensation**
  - ◆ Monthly payments to veterans for injuries or illnesses due to military service
- **VA pension**
  - ◆ Payments to low income veterans with permanent disabilities



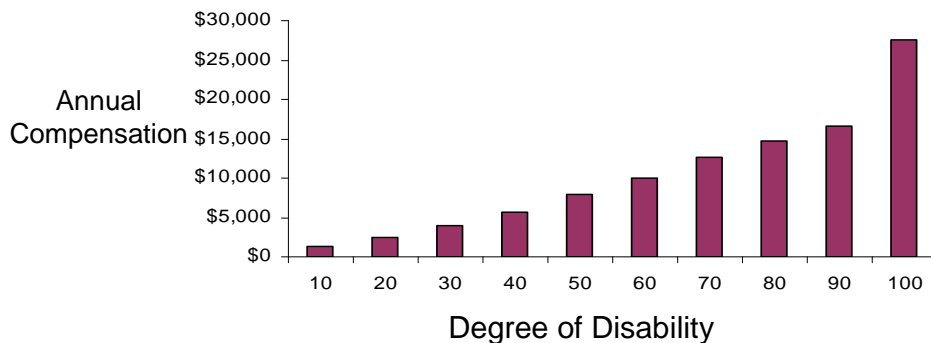
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Disability compensation and pension costs total 33.2 billion dollars, or 43.8% of the total VA budget. Disability compensation consists of monthly payments to veterans for injuries or illnesses due to military service. Any veteran injured while in the military can apply for compensation benefits, regardless of number of years of service and whether or not they are still in the military.

Pension benefits provide payments to low income veterans with permanent disabilities. To qualify, a veteran must be age 65 and older or be permanently and totally disabled due to a non-service-connect disability. This program is also subject to income limitations, with the total family income from non-VA sources determining the amount of the benefit.

## Disability Compensation

- Based on an overall disability level from 0% to 100% in increments of 10%



10.8 of Veterans receive some Disability compensation  
Average yearly payment is \$8,900

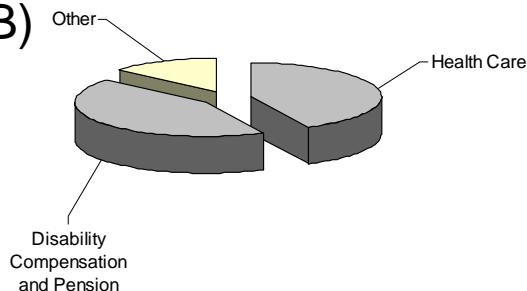
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Any veteran who was injured while serving in the military may apply for disability compensation benefits. Once the application is accepted, the veteran will be rated on a disability level from 0% to 100%, in increments of 10%. For multiple injuries, each injury is rated separately and then combined to give the veteran an overall disability level. This level determines the annual compensation the veteran will receive.

In total 10.8% of veterans receive some sort of disability compensation. The average yearly payment is \$8,900.

## Other Costs of Veterans

- Education (\$3.4B)
- Life insurance (\$2.6B)
- Loan guarantees (\$2.1B)
- Vocational rehabilitation and employment (\$0.7B)



8

Besides health care and disability compensation and pension benefits, the VA provides several other services to veterans which totaled 10.1 billion dollars in FY 2005. These services include education benefits (\$3.4B), life insurance (\$2.6B), loan guarantees (\$2.1B) and vocational rehabilitation and employment (\$0.7B).

## Education (\$3.4B)

- Provides veterans, service members, reservists and certain family members with educational resources
- Supplements opportunities missed during military service
- Program participants in 2005
  - ◆ 338,100 veterans,
  - ◆ 86,600 reservists and
  - ◆ 74,800 survivors/dependents

9

The VA education program provides veterans, service members, reservists and certain family members with educational resources. These resources are intended to supplement opportunities missed because of military service. In some cases, education benefits assist veterans in the readjustment to civilian life.

There are currently four active education programs: All-Volunteer Force Educational Assistance Program (Montgomery GI Bill- Active Duty), Education Assistance for Members of the Selected Reserve (Montgomery GI Bill- Selected Reserve), Survivors' and Dependents' Educational Assistance (Dependents Educational Assistance) and Post-Vietnam Era Veterans' Educational Assistance Program. Each program has its own set of requirements to qualify, but combined they served 338,100 veterans, 86,600 reservists and 74,800 survivors/dependents in 2005.

## Life Insurance (\$2.6B)

- Provides insurance at standard rates to members of the armed forces who are exposed to extra hazards
- In FY05,
  - ◆ 1,874,400 veterans,
  - ◆ 2,371,500 service members/reservists and
  - ◆ 3,037,000 spouses/dependents were covered

10

Several life insurance programs were established through the VA to provide coverage to veterans who are unable to purchase commercial insurance at healthy rates. Two programs serve disabled veterans, providing them up to \$30,000 of life insurance and/or \$90,000 of mortgage protection life insurance at standard rates. In cases of veterans who are totally disabled, these rates may be waived entirely.

A separate insurance program provides up to \$400.00 of life insurance coverage to active duty and reserve members of the uniformed services. This coverage is intended to be similar to coverage provided by large scale civilian employers. When a service members leaves the military, they have the option of converting this coverage to a renewable term life insurance policy.

In total, these programs covered 1,874,400 veterans, 2,371,500 service members/reservists and 3,037,000 spouses/dependents in FY 2005.

## **Loan Guarantees (\$2.1B)**

- Assists veterans by guaranteeing home loans
- No down payment is needed and loans have terms favorable to veterans
- 152,200 loans were guaranteed in FY05
- Nearly 18 million loans have been guaranteed since this program began during the 1940s

11

The VA loan guarantee program has been in existence since World War II. Since that time, the VA has guaranteed nearly 18 million home loans at a cost of over 883 billion dollars. This program guarantees home loans to veterans at favorable terms. The veteran needs no down payment, has no prepayment penalty and can take on a loan with up to a 30 year term. In addition, the VA assists veteran borrowers who are having trouble making their mortgage payments. They may provide a supplemental loan or intercede with the lender to give the veteran more time to make their payments.

In FY 2005, the VA guaranteed 152,200 home loans.

## Vocational Rehabilitation (\$0.7B)

- Assists veterans with service-connected disabilities to obtain and maintain suitable employment
- 55,228 veterans participated in this program in FY05
- The average time spent in the program is 2 1/2 years

12

The vocational rehabilitation program assists veterans with service-connected disabilities or employment hardships obtain and maintain suitable employment. For veterans with a disability that prevents employment, this program helps them achieve maximum independence in their daily lives. Active duty service members, veterans and some eligible dependents may apply for this program.

In FY 2005, 55,228 veterans participated in this program. On average, it takes two and half years to make it through all the steps of the program.

### **2. PLA Veterans' Costs, by Major General Jiang Shilang, CISS**

*Major General Jiang Shiliang provided a three-page outline, "Expenses for China's Veterans" (Zhongguo Tuixiu Junren Feiyong), that he used as a basis for discussing PLA personnel expenses. A translation of the outline and his explanation of each item are provided below.<sup>7</sup> Besides focusing on veterans, Major General Jiang also discussed pay for active duty personnel.*

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<sup>7</sup> Dr. Kenneth W. Allen of CNAC provided the translation.



**a. Different time periods had different methods for dealing with veterans**

China considered the 1950s to the late 1970s as the “period of nation building.” This period focused on the transition from civil war to economic building based on the Soviet model of a planned economy. A retirement system for the PLA had not yet been established. Highlights of this period are as follows:

- When military personnel retired (*tuiyi*) during this period, they transitioned into all sorts of professions as shown below: They received only their salary from their new employer. They did not receive any military pension.
  - The majority of PLA veterans returned to the countryside as peasants, where they had a difficult time finding a job
  - Some were re-appointed to civilian positions
  - Some were absorbed by the construction industry, the commercial industry, and the education profession
  - Some became scientific researchers
  - Some became Party functionaries at all different levels of the Party apparatus
- There were also the examples of entire units being transitioned to the civilian sector
  - Because of the problem of sending veterans back to their original home-of-record, some entire units were demobilized, and the unit remained in place to form a civilian community. One such example took place in the northeast.
  - Another example was a Xinjiang Construction Regiment, which was demobilized and re-settled in Xinjiang.
  - In addition, the PLA railroad corps as a whole transitioned to the civilian sector and became China’s civilian railway administration.

The early 1980s to the late 1990s was characterized by China’s opening up of its economy and international involvement. During this period, China began its transition from a planned economy to a market economy.

During this period, the government scrapped the lifetime employment system and gradually established a retirement system, including a retirement system for military officers. [Note: At that time, enlisted personnel could only serve for 16 years, so they were demobilized and not considered retirees. When they left the service, the military no longer had any responsibility for them.]

**b. Current Demobilization and Retirement Arrangements**

**Enlisted Personnel.** Today, at the end of their two-year tour, conscripts are sent back to their home-of-record when they are demobilized (*tuiwu*). All else being equal,

veterans have priority in employment, but, given the growth of the private sector compared to the shrinking sector controlled by the government, the State is having difficulty helping them find a job.

Grade 1-4 NCOs are basically sent back to their home-of-record as well. The local government does its best to help them find a job, but it is difficult in the new market economy. In some cases, the local government provides them with a subsidy for a short period of time. Grade 5-6 NCOs can transition to the civilian sector, assuming there are available jobs, or retire like officers.

**Officers.** [Note: The retirement options for officers, which includes being transferred to a civilian job before their mandatory retirement age, is quite complicated and was not covered adequately during the session. In some cases, the interpreter mistranslated or completely missed key concepts. In some cases, he blended two different methods or systems together without making a distinction between them. Based on our notes and discussions with other PLA personnel at other venues, it is not clear whether some of the payments were allowances, subsidies, or benefits, nor is it clear whether some of the payments are one-time payments or continuing payments after the person leaves the military. In addition, MG Jiang gave all of his examples using the PLA's grade system, but the interpreter changed the grades to ranks. In the future, when this topic is discussed, grades should be used, so as to better understand their system.]

The current number of retirees cared for by the military is close to 400,000 and the cost is rising because of the senior status of those retirees.

Officers with 30 years or less in service have the option, or are ordered, to transition to the civilian sector (*zhuan ye*) and choose one of the two types of programs—planned reassignment or self employment. When they leave the military, the State or local government becomes responsible for them.

Officers with 30 years or more in service who were division leader grade officers or higher can retire (*tuixiu*), at which time the PLA continues to be completely responsible for them until they die (i.e., they do not have to find a civilian job).

Transitioning to the civilian sector for personnel with less than 30 years in service is a fairly complicated system as follows: [Note: There is some discrepancy in our notes for this section, so this issue needs to be revisited in detail.]

- The first type of transitioning to the civilian sector is called planned reassignment (*jihua fenpei*). In this system, the government helps arrange a job in a bank, state-owned enterprise, or a government agency. The officer's new civilian grade is based on his military grade. His years-in-service are also

transferred to his civilian job and count toward retirement in that job. His eventual retirement benefits are taken care of by his new employer, not the military.

- Because it is becoming more difficult for the local government to find jobs for military personnel, the government instituted a self-employment system for PLA officers leaving the military with at least 20 years of service. In the event the government cannot arrange a job for the officer, the military provides him with a one-time separation allowance equal to 85% of the officer's base pay. This ends the military's responsibility for him. His records are then transferred to the local Civil Affairs Bureau. The officer is then required to find a job on his own or simply retire completely. As long as the officer does not take a government-related job, the Civilian Affairs Bureau continues to provide him with this same monthly retirement allowance for the rest of his life. The amount of the allowance is determined by years in service, with an additional 1% added for each year over 20 years. For example, 25 years in service equals 90% of salary. The officer will receive an additional 5% for each 3<sup>rd</sup>-class medal he was awarded, and 10% for each 2<sup>nd</sup>-class medal. The maximum anyone can receive is 100% of his original base salary. If the officer takes a government job, he loses the monthly allowance (i.e., he cannot "double dip").
- Officers also receive a one-time resettlement payment. For example, a regiment leader grade officer with 20 years in the service would receive 200,000 RMB (U.S.D 25,000).

Officers with 30 years or more in service can retire (*tuixiu*) within the military system, such that they do not need to seek a civilian job. There are two categories:

- Deputy *jun* leader and above officers live in retirement facilities (*ganxiusuo*) paid for by the defense budget. For example, MG Gong Xianfu and MG Jiang Shiliang live in a retirement facility.
- Division leader grade and below officers are taken care of by the local government. Since the 1980s, four large groups of officers have retired to be cared for by local Civil Affairs Bureaus. For example, the Civil Affairs Bureau is responsible for one of the CISS delegation members, Senior Colonel (ret) Chen Yongxing.

Those who joined the PLA before 1 October 1949 enjoy special benefits paid for by the defense budget no matter what rank they held when they were demobilized or retired (*lixiu*). For example, they all live in a retirement facility.

Besides their normal salary, active duty officers receive two extra months' of salary every December. Retirees receive one extra month of retirement pay. In addition, active duty officers received a one-time billet subsidy (*gangwei jintie*) in 2006. For example, in 2006, division leader grade officers received 380 RMB (U.S.D 47.50) and *jun* leader grade officers received 510 RMB (U.S.D 63.75) per month. [Note: It is not clear for our

notes, but it appears these figures represent the one-time special pay or the monthly salary figure.]

### **c. Civilian Cadres**

Civilian cadres (*wenzhi ganbu*) is a category of personnel that includes teachers, doctors, and nurses, some of whom are very senior researchers in research institutes. [Note: The civilian cadre system was instituted in 1988 at the same time the PLA re-instituted its rank system that had been abolished in 1965. They wear a military-style uniform without rank insignia.] They enjoy the same benefits as officers at the same grade level. Civilian cadres with 30 years in service can receive 95% of their salary annually upon retirement, with an additional 1% for each additional year in service and additional 5% for each medal. The maximum they can receive is 100%.

Even if these civilian cadre retirees receive 100% of their original salaries, it is still less than that received by active duty personnel at the same grade level.

### **d. Civilian Employees**

Civilian employees (*zhigong*) who work for the military receive better benefits than those in the civilian sector. [Note: No specifics were given, but many spouses of military personnel work as civilian employees on military facilities.]

### **e. Special Features of China's Veterans' Costs**

According to MG Jiang, the standard is still relatively low, but it is increasing every year. For example, before the 2006 increase, a PLA colonel received only 1/30 the pay of a U.S. military colonel. After the increase, his pay doubled to 1/15 the pay of his U.S. counterpart.

The cost of supporting most veterans is distributed across various industries and professions. Only a small number of veterans are supported by Civil Affairs Bureaus, but that number is gradually increasing. Only a small number of retired military officers are supported by the military.

The special category of personnel who joined the PLA prior to 1 October 1949 (*lixiu*) is gradually getting smaller; however, the number of regular retired officers (*tuixiu*) is gradually increasing.

The number of veterans transitioning to a civilian job (*jihua fenpei*) is decreasing, while the number of veterans finding jobs on their own (*zizhu zeye*) is increasing.

As can be seen, the method of covering the expenses of caring for veterans is still being reformed and improved.

#### **f. General Discussion on Personnel Expenses**

MG Jiang Shiliang explained that the PLA instituted an increase in salary for almost everyone in the military and for retirees, effective 1 July 2006. This was the largest pay increase in PLA history, and it helped to retain personnel and raise morale. However, it also dips deep into the defense budget, with more than 30 billion RMB (U.S.D 3.75 billion) being spent on personnel. The year 2007 will be the first full year that it has been in effect and expenditures will be 15 billion RMB (U.S.D 1.875 billion) higher than the previous year to cover just the salary increase.

According to MG Jiang, because the military budget was tight for so long, military personnel received compensation that was relatively lower than that received by those in the civilian sector. This made it difficult for the PLA to retain personnel; thus, the government decided to increase military pay by an average of 1,000 RMB (U.S.D 125) per person per month for 2.3 million personnel.<sup>8</sup> This represented almost a 100% increase. The average breakdown for enlisted personnel, officers, and retired officers is as follows:<sup>9</sup>

- Enlisted personnel received an average increase of 760 RMB (U.S.D 95) per month
- Officers received an average increase of 1,320 RMB (U.S.D 165) per month
- Retired personnel received an average increase of 1,890 (U.S.D 236.25) per month.

**Officer Salaries.** According to MG Jiang, Table 10 provides the monthly salary after the July 2006 increase for officers from the *jun*-level down to platoon level based on their grade. He stated that the PLA has pay charts available for each grade. [Note: An officer's salary is based on time in service, time in grade, and time in rank. Therefore, it is not exactly clear what the following figures are based on other than grade.]

**Table 10. Base Salary for Officers after July 2006**

<b>Grade</b>	<b>RMB</b>	<b>U.S.D</b>
<i>Jun</i> Leader	8,000	1,000

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<sup>8</sup> Note: The exchange rate of 8 RMB: 1 U.S.D is used.

<sup>9</sup> Note: Prior to changes in the conscription law in 1999 that allowed enlisted personnel to serve beyond a total of 16 years, enlisted personnel were demobilized not retired. As a result, the PLA did not have to pay any retirement benefits to enlisted personnel.

Division Leader	5,600	700
Regiment Leader	4,200	525
Battalion leader	3,200	400
Company leader	2,600	325
Platoon leader	2,200	275

For example, even as a retiree, MG Jiang's pay doubled after the pay increase from approximately 4,000 RMB (U.S.D 500) to more than 8,000 RMB (U.S.D 1,000). He stated that the major increase in his paycheck was composed of the following three components:

- Salary increase based on his grade: 2,500 RMB (U.S.D 312)
- Subsidies: 560 RMB (U.S.D 70)
- Time in Service: 440 RMB (U.S.D 55)

[Note: His explanation leads to the question whether the doubling of pay for officers in 2006 was only for the base salary, or whether it included subsidies as well.]

**Conscript Stipends.** In July 2006, the PLA increased the monthly stipend for conscripts by 90% as shown in Table 11 below:

**Table 11. Conscript Stipend Increases as of July 2006**

Rank	Pre-July 2006 Stipend	Post-July 2006 Stipend
Private 2nd Class	90 RMB (U.S.D 11.25)	200 RMB (U.S.D 25)
Private 1st Class	120 RMB (U.S.D 15)	240 RMB (U.S.D 30)

**NCO Salaries.** MG Jiang provided the following information about pay increases for NCOs, which is based on the officer pay scale:

- Grade-1 NCOs receive 70% of a platoon leader's pay
- Grade-2 NCOs receive 90% of a platoon leaders pay
- Grade-6 NCOs receive pay equivalent to that of a regiment deputy leader

**Officer Cadets.** MG Jiang also noted that the monthly pay for officer cadets in academies increased as shown in Table 12.

**Table 12. Officer Cadet Pay Increases**

<b>Cadet Year</b>	<b>Pre-July 2006 Stipend</b>	<b>Post-July 2006 Stipend</b>
First	110 RMB (U.S.D 13.75)	RMB 240 (U.S.D 30)
Fourth	260 RMB (U.S.D 32.50)	360 RMB (U.S.D 45)

**Retiree Allowances.** The pay increase also included automatic annual pay increases on 1 January of each year, even for retirees. For example, MG Jiang receives an annual increase of 125 RMB (U.S.D 15.65) per month.

Retirees also received an increase in benefits to make up for the low salaries they had while on active duty. Because their salaries were so low, many of them have no savings. For example, in the 1990s, a *jun* deputy leader officer received only 1,000 RMB (U.S.D 125) per month, but now he receives 7,000 RMB (U.S.D 875) per month.

**Hardship Allowances.** During 2007, the PLA also set up hardship allowances/subsidies for personnel stationed in remote areas and extra-regional allowances for people stationed in high-priced areas like Beijing and Shanghai. These allowances will take effect in the second half of 2007. For example, MG Jiang, who lives in Beijing, will get 1,000 RMB (U.S.D 125) per month. The PLA also increased subsidies for personnel stationed on submarines and for pilots.

**Civil Servants.** In July 2006, the government also adjusted the salaries of retired and active civil servants. No specific figures were given for the civil servants. However, MG Jiang pointed out that the pay for military officers is 20% higher than that of civilian servants of the same grade.





## V. CLOSING REMARKS

The final session of the workshop consisted of an exchange of remarks on the proceedings by Admiral Blair and General Gong Xianfu followed by a discussion of the way ahead.

**Admiral Blair, IDA:** The discussions showed we share common security concerns and have many areas where cooperation would benefit both China and the U.S. On Korea, we have more common views than differences. There appears to be no magic solution to the North Korea problem. On Africa, we seem to have more differences than similarities. The colonial period in Africa did not involve the U.S. and China is seeking to balance the past with the present in that region.

Today's discussion on personnel was fruitful. It is clear we share the same objectives. We both want to recruit and retain the highest quality personnel and we both believe we have obligations to our veterans. Levels of pay and associated responsibilities differ but both work toward accomplishing the same purposes.

We had a valuable set of discussions.

**General Gong Xianfu, CISS:** I agree with the points made by Admiral Blair. The meeting was fruitful and the presentations were well prepared. We had very frank, sincere exchanges. I believe the meeting was successful and valuable.

I feel that China and the U.S. have more common ground than differences, and the discussions of differing views will help mutual understanding. We always want to emphasize dialogue. Our discussions indicated that differences were not out of prejudice, but from each other's lack of understanding.

We hope for more opportunities to exchange views. We are not part of the government but we have military backgrounds. About 80 percent of IDA's job is to serve the OSD. We can continue exchanges on security and military issues.

In general, I hope both the U.S. and China benefit from these exchanges, and also that the whole world benefits from better U.S. and China relations.

We can meet in Beijing for the next round of discussions.

**Admiral Blair:** I suggest we retain the same two categories:

- Common Security Challenges

- Defense Resource Management.

Steve Balut will work out the specifics of the next workshop with Dr. Chen Wei via e-mail. We will return to Beijing to continue discussions and attempt to find more common ground.

## **APPENDIX A: BACKGROUND INFORMATION ON THE PLA**

*This appendix was provided by Dr. Kenneth W. Allen of CNAC.*

### **DOWNSIZING HISTORY**

Since the PRC was founded in 1949, the PLA has had 10 downsizings. When the PRC was established in October 1949, the PLA had 5.5 million troops. [Note: Although these are official PLA figures, it should be kept in mind that the PRC was just founded at that time and the country was still in chaos, so this is probably only a good estimate.]

The first downsizing occurred in May 1950, when the Chinese Communist Party (CCP) Central Committee's Military Commission (CMC) decided to reduce the size of the force by one million by downsizing the infantry branch and to begin building up the Navy and Air Force services along with the Army's artillery, armored, engineering, chemical defense, communications (signals), and railway branches. The move was also intended to help support national economic development. By the end of 1950, the overall size of the force had been reduced by 17.1%. The move to reduce the size of the force halted when the Korean War broke out. In fact, the size of the force expanded, reaching 6.27 million by October 1951.

In January 1952, the PLA began implementing its second downsizing. This included reducing the number of general departments, headquarters staff members, and infantry units, while expanding the number of people in the new services and schools. The PLA also turned over 950,000 troops to the Ministry of Public Security. This left the PLA with about three million troops.

In August 1953, the PLA began implementing its third downsizing of 23.3 percent, with the Army being reduced by the largest percentage.

In January 1957, the PLA implemented its fourth downsizing, so that by the end of 1958 it had either abolished or turned over one service headquarters (*junbu*) (i.e., the Air Defense Force), 46 divisions, and more than 30 institutes and schools. The Army's infantry still took the largest percentage. By the end of 1958, the PLA was only 39 percent of its original size in 1949.

During the first four cuts, the PLA had established a total of 10 service and branch headquarters, including the Air Force Headquarters Department, Navy Headquarters

Department, Communications Troops Department, Artillery Troops Headquarters Department, Armored Troops Headquarters Department, Public Security Force Headquarters Department, Engineering Troops Headquarters Department, Railway Troops Headquarters Department, and Chemical Defense Department. In May 1957, the PLA abolished the Air Defense Force Headquarters Department and merged it with the PLAAF, thus establishing a combined aviation and air defense system.

In June 1966, the Communist Party Central Committee and CMC decided to get rid of the designator for Public Security Forces and brought everything under the PLA umbrella. Also in June 1966, the PLA established the Second Artillery Corps as its strategic rocket forces.

At the end of 1975, the PLA began implementing its fifth downsizing to deal with the confusion brought about by the Cultural Revolution. At that time, the number of officers in the various headquarters far exceeded what was needed. The largest percentage of the downsizing went to the engineering and railway troops. As such, at the beginning of 1976, the PLA's size had been reduced by 13.6 percent.

In March 1980, the PLA began implementing its sixth downsizing by focusing on headquarters staffs and non-combat personnel and support units. More troops were transferred to the public sector.

In June 1982, the CCP Central Committee decided that all of the PLA's units responsible for providing service for internal security along with armed police, border defense, and all firemen and policemen would be organized as Chinese People's Armed Police (PAP) units. In September 1982, the PLA began implementing its seventh downsizing. A total of 510,000 troops composed of the capital construction engineering troops, which were created in January 1978, plus the railway troops were transferred primarily to the Ministry of Railways and its organizations in the various provinces. Some of these troops were transferred to the People's Armed Police. As a result, these two PLA branches were abolished.

Compared to the year 1980, the percentage of combat forces in the PLA after the sixth and seventh force reductions was much higher, while the percentage of headquarters staff personnel and service units declined. In addition, in 1982 the PLA initiated the first attempts at a formal NCO system by changing 76 types of officer billets to enlisted billets.

In 1985, the PLA implemented its eighth downsizing, which reduced the force by one million troops. This downsizing had four key points. First, all of the Army's [infantry] *jun* were converted to group armies, and the independent armored troops,

artillery, and engineering branches were incorporated into the group armies. Meanwhile, the communications troop and chemical defense troop branches were expanded, while electronic countermeasures units and camouflage units were created. As a result, the group armies' organic firepower, assault capability, and mobile combat capabilities far exceeded those of the old [infantry] *jun*. Second, the Army began its shift to motorization and mechanization. Third, the organizational structure was reformed. The Artillery Troop Headquarters Departments, Armored Troop Headquarters Departments, Engineering Troop Headquarters Departments, and Chemical Defense Troop Departments, which were subordinate to the CMC and military region headquarters, were all consolidated as functional departments under the General Staff Department and the Headquarters Department in the various military regions. The number of military regions was also reduced from 11 to 7. Fourth, subordinate relationships were reformed.

Following the restructuring, the Army's specialty branches for the first time exceeded the infantry; artillery became the Army's number one branch; and armored troops became the Army's primary assault force. In addition, Army Aviation, the PLA Navy's Marine Corps, and Army Air Defense Missile Units were born. Meanwhile, the cavalry and bugler troops were abolished because they did not meet the needs of modern warfare.

In September 1997, the PLA began its ninth force reduction, comprising a reduction of 500,000 troops in three years. The force reduction focused on combined arms and high efficiency and was aimed at transforming the PLA from a military based on quantity to one of quality and from a force that is manpower intensive to one that is based on science and technology.

On 1 September 2003, CMC Chairman Jiang Zemin announced the tenth large downsizing of the PLA, which called for 200,000 troops to be cut, of which 85% (175,000) were officers. The primary goal of this reduction was to move forward the development in the revolution in military affairs (RMA) and advance military reforms with Chinese characteristics. The wave of new military revolution is information warfare as the primary form of war. The missions of the tenth force reduction are as follows: to reduce the size of headquarters and to increase their efficiency and quality; to improve the balance between leadership and management relative to the support structure.

## RETIRED PERSONNEL (*TUIYI RENYUAN*)

During the first workshop between IDA and CISS in March 2004, CISS provided the following background information on the PLA's retirement system. The PLA has four categories for its officers when they retire from active duty (*tuichu xianyi*):

- Retired (*tuiyi*), which has two separate systems, both of which are translated as retired
  - Retired (*lixiu*) refers to veterans who joined the PLA prior to the founding of the PRC in 1949
  - Retired (*tuixiu*) refers to veterans who joined the PLA after the founding of the PRC in 1949
- Transfer to a comparable civilian job (*zhuan ye*), which has two separate systems
  - Planned reassignment (*jihua fenpei*)
  - Self employment (*zizhu zeye*)
- Demobilized (*fuyuan*)

In 2001, the PLA implemented two types of methods to transfer officers to civilian jobs: planned reassignment (*jihua fenpei*) and self employment (*zizhu zeye*). Specifically, officers who are division- or regiment-grade officers and battalion-grade officers who have served 18 years, including equivalent grade civilian cadre and special technical officers who receive similar treatment, can choose to be either reassigned to a civilian job or self employment. Battalion-grade and below officers who have not completed 18 years of service have only the option of a planned reassignment to a civilian job.

For officers who are transferred under the planned reassignment method, the government [i.e., not the PLA] provides some training and is responsible for arranging a job for them. For officers who are eligible for and choose the self employment option, the government helps them obtain employment and gives them monthly retirement money for the rest of their lives, and they are exempt from personal taxes.

Basic- and intermediate-grade NCOs, which includes the first four service periods, either receive a planned reassignment or are demobilized and returned to their home of origin, where the local government receives them and helps place them in a job.

Over the past decade or so, the PLA has had more than 700,000 personnel, which equates to 50,000 to 60,000 per year, leave active duty service.

## OFFICER GRADES AND RANKS

The PLA has 15 grades and 10 ranks for its officers as shown in Table A-1. Note that the term “leader” is used rather than just using “commander,” because the commander/director and political officer at each level are co-equals and are identified as the unit leaders.

**Table A-1. PLA Officer Grades and Ranks**

Grade #	Grade Name	Primary Rank	Secondary Rank
1	CMC Chairman ( <i>junwei zhuxi</i> ) Vice Chairman ( <i>fuzhuxi</i> )	None GEN/ADM	
2	CMC Member ( <i>junwei weiyuan</i> )	GEN/ADM	
3	Military Region Leader ( <i>daqu zhengzhi</i> )	GEN/ADM	LTG/VADM
4	Military Region Deputy Leader ( <i>daqu fuzhi</i> )	LTG/VADM	MG/RADM
5	<i>Jun</i> Leader <sup>a</sup> ( <i>zhenjun</i> )	MG/RADM	LTG/VADM
6	<i>Jun</i> Deputy Leader ( <i>fujun</i> )	MG/RADM	SCOL/SCAPT
7	Division Leader ( <i>zhengshi</i> )	SCOL/SCPT	MG/RADM
8	Division Deputy Leader ( <i>fushi</i> )	COL/CAPT	SCOL/SCAPT
9	Regiment Leader ( <i>zhengtuan</i> )	COL/CAPT	LTC/CDR
10	Regiment Deputy Leader ( <i>futuan</i> )	LTC/CDR	COL/CAPT
11	Battalion Leader ( <i>zhengying</i> )	MAJ/LCDR	LTC/CDR
12	Battalion Deputy Leader ( <i>fuying</i> )	CPT/LT	MAJ/LCDR
13	Company Leader ( <i>zhenglian</i> )	CPT/LT	1LT/LTJG
14	Company Deputy Leader ( <i>fulian</i> )	1LT/LTJG	CPT/LT
15	Platoon Leader ( <i>zhengpai</i> )	2LT/ENS	1LT/LTJG

<sup>a</sup> *Jun* is usually translated as “army” or “corps.” This is the grade level for the PLA’s group armies, the PLAAF’s 15<sup>th</sup> Airborne Army, and Second Artillery’s bases.

As shown, there is not a 1:1 relationship between grades and ranks. For example, a colonel can be assigned to three grades (regiment deputy leader, regiment leader, and division deputy leader). Therefore, when a PLA officer gets promoted in grade, he still retains the same rank until he has enough time in grade to get a promotion in rank.

## ENLISTED FORCE REFORMS

Prior to 1999, conscripts in the ground forces and the Second Artillery served three years, while their counterparts in the PLAN and PLAAF served for four. Conscripts in all of these services had the option to remain on active duty as a “volunteer” (*zhiyuan bing*) for a total service time of 16 years should they desire to do so. At the end of their 16-year period, enlisted personnel were demobilized (not retired) and sent back to their home-of-record.

In December 1998, China passed the revised “Military Service Law of the People's Republic of China” that implemented two major changes. First, the law reduced the mandatory conscription period to only two years for all services and branches in the PLA. Today, prior to reaching the end of their two-year conscription period, conscripts may volunteer to become an NCO or take exams to enter a military academy to become an officer. When a conscript is not accepted as a volunteer to become an NCO or officer at the end of his two-year period, he is demobilized and sent back to his home-of-record. Second, the law created a formal professional NCO corps with a 30-year career path. Any NCO who is not promoted to the next grade is demobilized and sent back to his home-of-record.

Today, the NCO corps is broken down into three grade levels, six service periods, and six ranks. Table A-2 shows the NCO grade levels, service periods, and ranks.

**Table A-2. NCO Grade Levels, Service Periods, and Ranks**

<b>Grade Level</b>	<b>Service Period and Years per Period</b>	<b>Rank</b>
Junior NCO	1st Period (3 years)	Grade-1 NCO
	2nd Period (3 years)	Grade-2 NCO
Intermediate NCO	3rd Period (4 years)	Grade-3 NCO
	4th Period (4 years)	Grade-4 NCO
Senior NCO	5th Period (5 years)	Grade-5 NCO
	6th Period (9 years)	Grade-6 NCO



## APPENDIX B: PERSONNEL COST TERMINOLOGY

*This appendix was provided by Dr. Kenneth W. Allen of CNAC.*

**Salary** (*gongzi*)—Monthly wages the PLA provides to its NCOs and officers.

- Base Salary (*jichu gongzi*)
- Grade and Rank Salary (*junxian jibie gongzi*)
- Time-in-Service Salary (*junling gongzi*)—This salary gradually increases in accordance with time in service calculated from the year that a servicemen joins the PLA. Note that time-in-service for officers begins the day they start as a cadet in an academy, not the day they graduate.

**Servicemen's Subsidies** (*junren jintie*)—Rewards to compensate or encourage servicemen issued by the state at regular intervals. Servicemen's allowances are issued in the first five days of each month and include:

- Conscript Stipend (*yiwubing jintie*)—Issued to conscripts on the basis of rank and time in service.
- Servicemen's Proficiency Pay (*junren zhiwu jintie*) – Began in October 1993 and issued to NCOs on the basis of grade.
- Regional Subsidies (*diqu jintie*)—Divided into two types: Subsidies for Frontier and Hardship Regions (*bianfang jianku diqu jintie*; 边防艰苦地区津贴) and Regional Supplemental Subsidies (*diqu fujia jintie*; 地区附加津贴). Each of these subsidies are divided into 10 different categories.
- Servicemen's Billet Subsidies (*junren gangwei jintie*)—Includes Specialty Billet Subsidies (*zhuan ye gangwei jintie*), Subsidies for Harmful Substance and Hazardous Work Duty (*youdu youhai gangwei baojian jintie*), and Duty and Billet Subsidies (*zhiwu gangwei jintie*).

**Servicemen's Allowances** (*junren butie*)—Money allocated to servicemen by the state to cover certain types of expenses. Allowances are disbursed to servicemen at the same time as they receive their monthly salary or stipend. Servicemen's allowances include:

- Living Allowances (*shenghuo butie*)
- Meal Allowances (*huoshi butie*)
- Rent Allowances (*fangzu butie*)
- Supplemental Welfare Assistance (*fuli buzhu*)

### Other Subsidies and Allowances

- Subsidized Food (*huoshi butie*)—Meals are subsidized via a ration card.

- Subsidized Medical Care (*gongfei yiliao*)
- Hardship Living Relief Fund (*shenghuo kunnan jiuji fei*) – This is supplemental assistance (*buzhu*) to the parents of NCOs living in dire straits.
- Child-Care Assistance (*ziniu baoyu buzhu*)
- Child Education Assistance (*ziniu jiaoyu buzhu*)
- One Child Parent Bonus (*dusheng ziniu fumu jiangli fei*)
- Maternity Leave (*chanjia*)
- Hot Weather Cooling Allowance (*fangshu jiangwen fei*)
- Demobilization and Early Discharge Allowance (*tuiyi fei*)
- Allowances for Harmful Substance and Hazardous Work Duty (*youdu youhai gangwei baojian jintie*)
- Proficiency Pay (*zhiwu jintie*)

**Military Housing Allowance System** (*jundui zhufang butie zhidu*)

- Rent Allowances (*tizu butie*)
- Home Purchasing Allowances (*goufang butie*)
- Housing Public Reserve Funds (*zhufang gongji jin*)
- Hardship Post Allowance (*jianku diqu jintie*)

**Food Allowances** (*huoshi butie*)—All members of the enlisted force receive food allowances via a ration card. In many mess halls, payment for meals is done via debit card (*fanka*).

**Mess Halls** (*huoshi zaobie*)—The PLA has four categories (*lei*) of mess halls.

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